

**ECONOMIC COMMISSION FOR LATIN AMERICA**

**REPORT OF THE CENTRAL AMERICAN  
ECONOMIC CO-OPERATION COMMITTEE**

**13 DECEMBER 1960—29 JANUARY 1963**



**UNITED NATIONS**



**ECONOMIC COMMISSION FOR LATIN AMERICA**

**REPORT OF THE CENTRAL AMERICAN  
ECONOMIC CO-OPERATION COMMITTEE**

**13 DECEMBER 1960—29 JANUARY 1963**

**ECONOMIC AND SOCIAL COUNCIL**



**UNITED NATIONS**

**New York, 1964**

## NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

E/CN.12/672  
E/CN.12/CCE/303/Rev.1

UNITED NATIONS PUBLICATION

Sales No.: 63. II.G. 12

Price: \$U.S. 0.75 (or equivalent in other currencies)

## CONTENTS

	<i>Page</i>
FOREWORD .....	v
<b>REPORT OF THE EIGHTH SESSION OF THE COMMITTEE</b>	
INTRODUCTION. SCOPE OF THE REPORT .....	1
<b><i>Part I</i></b>	
ACCOUNT OF ACTIVITIES BETWEEN THE SEVENTH AND EIGHTH SESSIONS .....	1
1. Free trade .....	2
2. Equalization of tariffs .....	2
3. Customs legislation .....	2
4. Industrial development .....	2
(a) Régime for integration industries .....	2
(b) Fiscal incentives .....	3
(c) Other aspects .....	3
5. Development financing .....	3
6. Development of the economic infrastructure .....	3
(a) Road transport .....	3
(b) Electric power .....	4
7. Agricultural development .....	4
8. Technical research and training .....	4
9. Social aspects of development .....	5
(a) Housing .....	5
(b) Labour costs, productivity and income distribution .....	5
(c) Population .....	5
(d) Land tenure .....	5
10. Statistical co-ordination .....	5
<b><i>Part II</i></b>	
TECHNICAL ASSISTANCE FOR THE INTEGRATION PROGRAMME DURING 1961 AND 1962 .....	5
<b><i>Part III</i></b>	
EIGHTH SESSION OF THE COMMITTEE .....	6
A. Membership, attendance and organization of work .....	6
B. Agenda .....	7
C. Summary of proceedings .....	10
1. General situation of the Programme .....	10
2. Common Market .....	10
3. Economic ties of Central America with other countries or groups of countries .....	11
4. Industrial development .....	11

	<i>Page</i>
5. Application of the régime for integration industries .....	12
6. Economic integration and development planning .....	13
7. Agricultural development .....	13
8. Electric power .....	13
9. Transport .....	14
10. Housing .....	14
11. Social aspects of development .....	14
12. Technological research, productivity and training .....	14
13. Technical assistance .....	15
14. Other matters .....	15
15. Votes of thanks .....	15
16. Expression of gratitude to Mr. Cristóbal Lara Beutell .....	15
17. Date and place of the next session .....	15
 <b><i>Part IV</i></b> 	
RESOLUTIONS ADOPTED .....	15
 <b><i>ANNEXES</i></b> 	
A. Protocol to the Agreement on the Régime for Central American Integration Industries .....	22
B. Protocol to the Central American Agreement on the Equalization of Import Duties and Charges .....	28
C. General situation and future outlook of the Central American Integration Programme (note by the ECLA secretariat) .....	28
 <b>Appendix I</b> 	
<b>REPORT OF THE THIRD SPECIAL SESSION OF THE COMMITTEE</b>	
INTRODUCTION. SCOPE OF THE REPORT .....	43
 <b><i>Part I</i></b> 	
BACKGROUND .....	43
 <b><i>Part II</i></b> 	
THIRD SPECIAL SESSION OF THE COMMITTEE .....	44
A. Membership, attendance and organization of work .....	44
B. Agenda .....	45
C. Summary of proceedings .....	46
1. Accession of Costa Rica to the Central American Common Market .....	46
(a) General Treaty and Central American Bank for Economic Integration .....	46
(b) Special trade régimes .....	46
(c) Accession of Costa Rica to the Managua Protocol on tariff equalization .....	47
2. Equalization of tariffs .....	47

	<i>Page</i>
3. Fiscal incentives to industrial development .....	48
4. Trade restrictions .....	49
5. Other business .....	49
6. Date and place of the next session .....	49
7. Votes of thanks .....	50
 <b><i>Part III</i></b> 	
RESOLUTIONS ADOPTED .....	50
 <b><i>ANNEXES</i></b> 	
A. Instruments of Accession of Costa Rica to the General Treaty on Central American Economic Integration and to the Agreement Establishing the Central American Bank for Economic Integration .....	52
B. Protocol of Accession of Costa Rica to the Protocol on the Equalization of Import Duties and Charges, signed at Managua on 13 December 1960 .....	53
C. Protocol to the Central American Agreement on the Equalization of Import Duties and Charges .....	54
D. Central American Agreement on Fiscal Incentives to Industrial Development .....	55
 <b>Appendix II</b> 	
<b>REPORT OF THE FOURTH SPECIAL SESSION OF THE COMMITTEE</b>	
INTRODUCTION. SCOPE OF THE REPORT .....	63
 <b><i>Part I</i></b> 	
BACKGROUND .....	63
 <b><i>Part II</i></b> 	
FOURTH SPECIAL SESSION OF THE COMMITTEE .....	63
A. Membership, attendance and opening meeting .....	63
B. Agenda .....	64
C. Summary of proceedings .....	64
1. Protocol completing the accession of Costa Rica to the General Treaty on Central American Economic Integration .....	66
2. Other matters .....	66
 <b><i>Part III</i></b> 	
RESOLUTION ADOPTED .....	67
 <b><i>ANNEX</i></b> 	
Protocol to the General Treaty on Central American Economic Integration: Schedules of goods subject to special interim régimes of exemption from free trade as between Costa Rica and each of the other Signatory States .....	67





## FOREWORD

This publication consists of three reports of the Central American Economic Co-operation Committee and a note by the ECLA secretariat.

The first of the reports concerns the eighth session of the Committee and covers the activities between 13 December 1960 and 29 January 1963, i.e., the period between the closing of its seventh session, held at Managua, Nicaragua, and of its eighth session, held at San Salvador, El Salvador. The document entitled *General situation and future outlook of the Central American Integration Programme* (E/CN.12/666-E/CN.12/CCE/265), which appears as an annex, was prepared by the secretariat and submitted to the Committee at its eighth session. It sets out broad guidelines relating to the Economic Integration Programme which were considered at the meeting.

The report of the third special session of the Committee, held on the occasion of Costa Rica's accession to the Central American Common Market (San José, 16 to 30 July 1962), and of its fourth special session (Tegucigalpa, 15 to 19 November 1962), at which Costa Rica's accession was completed and effect was given to the free-trade régime established between Costa Rica and the other Central American countries, appear as appendices I and II to this report.

The three reports referred to above contain, as annexes, the texts of the following instruments:

- (a) Instruments of Accession of Costa Rica to the General Treaty on Central American Economic Integration and to the Agreement Establishing the Central American Bank for Economic Integration (*third special session*)
- (b) Protocol of Accession of Costa Rica to the Protocol on the Equalization of Import Duties and Charges, signed at Managua on 13 December 1960 (*third special session*)
- (c) Protocol to the Central American Agreement on the Equalization of Import Duties and Charges (San José Protocol) (*third special session*)
- (d) Central American Agreement on Fiscal Incentives to Industrial Development (*third special session*)
- (e) Protocol to the General Treaty on Central American Economic Integration: Schedules of goods subject to interim régimes of exemption from free trade as between Costa Rica and each of the other member States (*fourth special session*)
- (f) Protocol to the Agreement on the Régime for Central American Integration Industries (*eighth session*)
- (g) Protocol to the Central American Agreement on the Equalization of Import Duties and Charges (*eighth session*)



# REPORT OF THE EIGHTH SESSION OF THE CENTRAL AMERICAN ECONOMIC CO-OPERATION COMMITTEE

(13 December 1960 to 29 January 1963)

## Introduction

### SCOPE OF THE REPORT

This report covers the activities of the Central American Economic Co-operation Committee between 13 December 1960, the final date of its seventh session held at Managua, Nicaragua, and 29 January 1963, the final date of its eighth session held at San Salvador, El Salvador.

The report is divided into four parts. Part I reviews the activities of the Committee and of the ECLA secretariat between the two sessions; part II describes the technical assistance provided for the Central American Economic Integration Programme by United Nations agencies; part III summarizes the proceedings and conclusions of the eighth session; and part IV contains the resolutions adopted at that session.

The texts of the Protocol to the Agreement on the Régime for Central American Integration Industries and of the El Salvador Protocol on the Equalization of Import Duties and Charges, which were adopted by the Committee and signed by the five Central American Governments on 29 January 1963, are appended as annexes. At the Committee's request, the note by the ECLA secretariat entitled *General situation and future outlook of the Central American Integration Programme* (E/CN.12/666-E/CN.12/CCE/265), which the Committee used as a basis for discussion in laying down the broad outlines of the Programme for the next few years, is appended as an annex.

## Part I

### ACCOUNT OF ACTIVITIES BETWEEN THE SEVENTH AND EIGHTH SESSIONS

During the period under review the Committee's activities led to further progress in Central American economic integration. Costa Rica became a party to all the economic integration treaties which it had not originally signed; the Uniform Central American Import Tariff was completed, except for a few headings which represent only 5 per cent of the tariff as a whole; and the Governments signed a new agreement providing for uniform fiscal incentives to industrial development and proceeded with the work needed to give effect to the Agreement on the Régime for Central American Integration Industries. During the same period a Central American Economic Council, an Executive Council and a Permanent Secretariat were established under the General Treaty on Central American Economic Integration to co-ordinate and direct the economic policy of the States, particularly with respect to integration, and to apply and administer the provisions of the Treaty. In addition, the Central American Bank for Economic Integration—which is the financial institution responsible for the promotion of regional projects and projects contributing to the integration process—and the Clearing House both began to function. The General Treaty on Central American Economic Integration, the Agreement Es-

tablishing the Central American Bank for Economic Integration, and the Protocol to the Agreement on the Equalization of Import Duties and Charges all entered into force on 4 June 1961, an event which marked the beginning of the operating phase of the Central American Common Market.

With respect to the developments leading to the progress reviewed above, the Trade Sub-Committee held three sessions, and a special advisory session, at which agreement was reached on uniform import duties and charges for a large number of tariff headings. The Working Group on Fiscal Incentives to Industrial Development held three series of meetings and drafted an agreement, the final text of which was signed by the Governments in July 1962. The *Ad Hoc* Working Group on Industrial Development held a series of meetings at which projects that might be included in the Agreement on the Régime for Integration Industries and the general conditions governing their inclusion were considered. In addition, a group of customs officials prepared a new draft uniform customs code for Central America.

The Central American Economic Co-operation Committee itself, consisting of the Ministers for Economic

Affairs of the various countries and the Guatemalan Minister for Economic Integration, held its third and fourth special sessions, at which it reviewed the draft agreements prepared by the various working groups and drafted the final texts to be signed by the Governments of the Central American Countries.

At the request of the Governments concerned, the ECLA secretariat organized a Seminar on Industrial Programming Techniques, which was attended by government officials of the various countries.

The Advanced School of Public Administration for Central America and Panama (ESAPAC) and the Central American Research Institute for Industry (ICAITI) continued to contribute to the Central American Economic Integration Programme in their respective fields of activity.

The ECLA secretariat co-operated closely with the Central American institutions set up by virtue of the General Treaty and with such others as are concerned with economic integration.

The Committee's activities in each of the main sectors of the Programme are reviewed below.

### 1. FREE TRADE

The General Treaty on Central American Economic Integration came into effect on 4 June 1961 for Guatemala, El Salvador and Nicaragua. Honduras ratified it a year later. As a result, most of the products originating in Central America now enjoy the advantages of general free-trade régime, and the remainder are subject to progressive liberalization régimes and to other special measures. The economic integration treaties have created major incentives to intra-Central American trade and to production and have resulted in a rapid increase in both the volume and the value of the goods exchanged.

Costa Rica's accession to the General Treaty took place on 23 July 1962, and all that remained to be settled were the conditions governing the exchange, as between Costa Rica and the other member countries, of goods to which the free-trade régime would not apply during the transition period. To this end, various bilateral negotiations were held, as well as two series of meetings of a working group set up by the Committee to consider the results of the negotiations and to agree, at a multilateral level, on the respective schedules of the annex to the General Treaty. These activities were considered at the fourth special session of the Committee, which was held at Tegucigalpa, Honduras, and led to the signing of the corresponding protocol on 16 November 1962.

The geographical coverage of the Central American free-trade area, which embraces over 90 per cent of the products originating in the contracting States, was thus completed. The final stage will be reached in June 1966, at the end of the five-year interim period provided for in the General Treaty, when the special régimes of exemption from free trade still in effect are to be abolished.

The organs of the General Treaty are responsible for the administration of trade at the Central American level.

### 2. EQUALIZATION OF TARIFFS

In July 1962, at the third special session of the Economic Co-operation Committee, the five member Governments signed the San José Protocol to the Central American Agreement on the Equalization of Import Duties and Charges. Under the Protocol, tariffs have been equalized for 95 per cent of the headings in the Uniform Central American Customs Nomenclature (NAUCA). The negotiations in which the Governments had been engaged at three separate sessions of the Central American Trade Sub-Committee were thus successfully concluded.

This same occasion was further marked by the signing of the instrument whereby the Government of Costa Rica acceded to the Managua Protocol on the equalization of tariffs, which that country had not signed originally.

To complete the Uniform Central American Import Tariff, uniform duties and charges for sixty-three headings still need to be established. Although few in number, these headings represent a high percentage of the region's total imports and of the customs revenue of the five countries concerned.

### 3. CUSTOMS LEGISLATION

Pursuant to resolutions 18 (AC.17) and 22 (CCE), a Working Group of the Trade Sub-Committee prepared, in 1961 a new draft uniform customs code based on the preliminary drafts drawn up by United Nations technical assistance experts and on the observations submitted by the Governments concerned. The draft includes common provisions on definitions, basic concepts, customs operations and evaluation of goods, and establishes the procedure for organizing the national customs services according to a uniform Central American system.

At its fourth special session, held at Tegucigalpa, Honduras, in November 1962, the Committee requested that another meeting of Central American customs officials should be held in the near future for the purpose of considering and putting the final touches to the draft at the technical level. The draft would then be submitted to the Committee itself at its next special session so that it might on that occasion be signed by the Governments concerned.

### 4. INDUSTRIAL DEVELOPMENT

#### (a) *Régime for integration industries*

Acting on the Committee's recommendations, the ECLA secretariat has carried out studies on additional possibilities of integrated industrial development, particularly plants producing intermediate or capital goods which require the whole Central American market in order to operate economically. The *Ad Hoc* Working Group on Industrial Development set up in accordance with resolution 84 (CCE) met at Managua, Nicaragua, in December 1961, to consider the industrial projects submitted by the Governments and the studies just mentioned (E/CN.12/CCE/245). After examining these projects, the Group drafted the preliminary text of a protocol setting out various activities which might

be included in the Régime for Central American Integration Industries.

Pursuant to the provisions of the Agreement on the Régime, technical specifications concerning three of the projects considered at the Managua meeting were subsequently drawn up and were examined at two meetings of the Executive Council of the Treaty. As a result of these activities, a draft Protocol was prepared for consideration by the Committee at its eighth session and for signature by the Governments on that occasion.

#### (b) *Fiscal incentives*

In pursuance of resolution 50 (CCE), the Economic Co-operation Committee decided to embark on action to standardize Central American legislation on fiscal incentives to industrial development and, to that end, requested the United Nations to carry out the necessary basic studies. Subsequently, under resolution 85 (CCE), it established an *ad hoc* working group to prepare the relevant draft agreement on the basis of a report drawn up by an expert from the United Nations Bureau of Technical Assistance Operations and of guidelines and background information submitted by the ECLA secretariat. The group held three series of meetings in 1961 and 1962 and prepared a draft agreement which, after revision and adoption by the Committee at its third special session, was signed by the Governments on 31 July 1962.

The Agreement deals exclusively with manufacturing industries and contains uniform provisions on exemptions relating to them and on the classification of industries. It provides that industries shall be defined and classified on a completely Central American basis not later than seven years after its entry into force. The main objectives of this instrument are the development of industries producing intermediate goods, raw materials and capital goods, and the establishment in Central America of manufacturing activities making broad use of the area's human and natural resources. With respect to the assembly of component parts, the Agreement provides that within one year the Governments must sign an additional protocol establishing the fiscal incentives régime which will apply to assembly activities and laying down regulations for trade in assembled items within the Central American Common Market.

#### (c) *Other aspects*

With the co-operation of a United Nations technical assistance expert and the assistance of the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), appreciable progress was made during 1961 and 1962 in laying the groundwork of the programme, previously recommended by the Committee, to promote the development and specialization of the textile industry. Action is also being taken to establish a Central American textile federation, which, through its participation and co-operation, can help to make the programme effective.

During the same period, the Central American Federation of Industrial Chambers and Associations was established and began functioning.

### 5. DEVELOPMENT FINANCING

The Economic Co-operation Committee recommended in resolution 104 (CCE) that the Agreement Establishing the Central American Bank for Economic Integration should be signed by the Governments concerned, and this was done by the Governments of Guatemala, El Salvador, Honduras and Nicaragua on 13 December 1960 in the course of the Committee's seventh session. The Agreement came into effect on 8 May 1961 and the Bank started operations in September of that year. The initial capital of the Bank consists of contributions from the member Governments. Costa Rica acceded to the Agreement on 23 July 1962 in the course of the Committee's third special session.

The main purpose of the Central American Bank is to promote the balanced development of the member countries within the framework of economic integration. This is to be accomplished through investment, in industrial and agricultural activities of regional interest and investment in infrastructure. The Bank granted its first loan in December 1961 and by the following December had granted loans amounting to \$4.2 million for the development of industrial enterprises.

At its seventh session, the Committee asked the Central Bank of Honduras to undertake studies that might serve as the basis for the establishment of a clearing house among the Central American countries. In 1961, the Central Banks of Guatemala, El Salvador and Honduras established a Central American Clearing House for the purpose of promoting the use of Central American currencies in transactions involving the countries of the area. The Clearing House has its headquarters in the offices of the Central American Bank for Economic Integration. The Central Bank of Nicaragua became a member of the Clearing House in May 1962.

### 6. DEVELOPMENT OF THE ECONOMIC INFRASTRUCTURE

#### (a) *Road transport*

In 1961, under the terms of resolution 92 (CCE), two experts assigned by the United Nations Bureau of Technical Assistance Operations carried out a study on the progress being made in the Central American road network and the probable cost of this network upon its completion (E/CN.12/CCE/250-TAO/LAT/38), and a study on road-building methods (E/CN.12/CCE/SC.2/6). Both reports will be submitted to the Transport Sub-Committee at its next session.

A working group consisting of the ECLA secretariat, the Permanent Secretariat of the General Treaty and the Central American Bank for Economic Integration was set up in 1962 for the purpose of expediting the plan for a Central American road network. As a result of the activities of this group, officials of the Bank and of the Permanent Secretariat have prepared preliminary drafts for thirteen of the principal roads of the regional network. These drafts will also be submitted to the Transport Sub-Committee at its next session.

The ECLA secretariat and the Advanced School of Public Administration for Central America and Panama

(ESAPAC) jointly sponsored a seminar on the organization and administration of roads, which was held at San José in September 1961.

#### (b) *Electric power*

During the period between the Committee's seventh and eighth sessions, work proceeded on the electric power sector of the integration programme as set out at the first session of the Central American Electrification Sub-Committee held at San Salvador in 1959. The main attention has so far been given to the possibilities of interconnecting grids and to the joint development of water resources by two or more of the Central American countries.

The contribution made by the Central American Electrification Mission in 1961 increased the funds allocated to this sector within the United Nations regional programme of technical assistance. Mission experts, with the co-operation of the ECLA secretariat, have carried out studies on the interconnexion of two of the hydroelectric systems in the region (El Salvador-Honduras and Costa Rica-Panama). They similarly prepared a complete project on a regional water resources research programme. These papers, as well as the comparative studies of electric power costs and rates and the draft uniform code of accounts for the electricity industry that were previously prepared by United Nations experts, will be submitted to the Electrification Sub-Committee at its second session.

### 7. AGRICULTURAL DEVELOPMENT

Work on the agricultural sector of the Economic Integration Programme in 1961 and 1962 was chiefly related to the needs of the Central American Common Market and others matters concerning development problems. With respect to the equalization of tariffs, the ECLA secretariat prepared studies on the dairy industry that were used by the Trade Sub-Committee in drafting the special agreements on the development of regional production which were included in the San José Protocol. It also prepared studies on the agricultural and industrial aspects of wheat and wheat flour production in Central America, as well as on supply conditions and present and future requirements for these products.

Under the General Treaty, some Central American agricultural commodities remain subject to special exemption régimes and will not be granted full free-trade treatment until a special agreement on co-ordination of national production and supply policies is signed. In order to expedite such an agreement, the ECLA secretariat and FAO have continued with the preparation and analysis of demand and production projections and have initiated a study on the system and conditions under which these products are marketed. The purpose of these operations is to facilitate the adoption of the regional price-support policies or the co-ordinated national price-support programmes that are to be incorporated in the additional agreements provided for in the General Treaty. The relevant documents will be submitted to the Agricultural Development Sub-Committee, which is to hold its first session in 1963.

For its part, the Permanent Secretariat of the General Treaty has co-operated with the Central American development and price stabilization agencies in the first steps to harmonize the policies of the various countries.

A working group consisting of members of the Permanent Secretariat, the Central American Bank, FAO and the ECLA secretariat was set up in 1962. It has drawn up the initial plans and guiding principles for an investment programme providing for the construction and completion of a regional network of silos and other facilities for the storage and conservation of grain. The results of its work were examined at the meeting of Central American development and price stabilization agencies held in October 1962.

### 8. TECHNICAL RESEARCH AND TRAINING

The Central American Research Institute for Industry (ICAITI) has continued to intensify and broaden its activities on behalf of the industrial development of Central America, with particular emphasis on manufacturing. In view of the establishment of the Central American Bank and the increasing demands of the Programme, an effort is now being made to bring the Institute into closer association with the industrial promotion activities of direct concern to Governments and to the economic integration agencies. For example, in 1962, in pursuance of a decision of the Institute's Board of Directors, a special commission consisting of representatives of the Central American Bank, the Permanent Secretariat of the General Treaty, the United Nations Special Fund and Technical Assistance Board, and the ECLA secretariat, drew up what was regarded as a minimum programme of research.

The Governments have adopted a similar policy towards the Advanced School of Public Administration for Central America and Panama (ESAPAC) in its particular field of activity. On the basis of an evaluation of its activities carried out in 1961 with the co-operation of the United Nations Division for Public Administration and the ECLA secretariat, the Executive Board introduced some changes in policy in 1962, and adopted a programme of activities for 1962-65 aimed at associating ESAPAC more closely with the requirements of Central American economic integration. ESAPAC's activities in 1961-62 included the following:

A short regional course on customs administration; a seminar on road administration; a seminar on the administrative aspects and the application of the treaties concerning free trade and equalization of tariffs; a seminar on the draft Central American Agreement on Fiscal Incentives to Industrial Development; and a seminar on the civil service and careers in public administration.

The ILO Technical Assistance Mission also continued in 1961-62 with its work on productivity and training. Increasing attention is being given to industrial productivity, and more effective co-ordination has been established between the Mission and the research being carried out by the ECLA secretariat in the manufacturing sector.

## 9. SOCIAL ASPECTS OF DEVELOPMENT

### (a) *Housing*

The housing research programme that has been carried out during the past few years with the co-operation of a United Nations technical assistance expert has had as its chief results: the preparation of a study on the raw materials and natural resources available in Central America for the manufacture of building materials; an inventory of the industries producing such materials in the six Central American countries, including a preliminary analysis of the possibilities of regional trade in some of the major items; a study of national programmes for low-cost housing in 1963 and 1964, including a description of how they are financed; and a broad investigation of the modular co-ordination system as applied to housing, and the problems related to its possible application in Central America. An OAS expert also assisted in this work in 1962.

In August 1962 a working group of the Housing Sub-Committee, consisting of Central American experts and of advisers from other countries, met at San Salvador to consider the various aspects of modular co-ordination. It recommended the adoption of the system in the Central American countries, including the adaptation of existing industries so that they might be able to manufacture standardized materials. The meetings of the working group were held under the auspices of the ECLA secretariat, BTAO, OAS and the Inter-American Development Bank.

Both the report of the Working Group and the other documents prepared by the United Nations expert will be submitted to the Housing Sub-Committee at its next session.

### (b) *Labour costs, productivity and income distribution*

In compliance with resolution 94 (CCE), BTAO and ILO experts, in co-operation with the secretariat of the Committee have begun a study on cost and productivity levels of industrial manpower and the structure and process of income distribution in the Central American countries.

Some of the basic data will be sought through a direct survey to be conducted among a selected group of industrial establishments. The Central American Institute of Economic and Social Research is also co-operating in this work.

### (c) *Population*

The BTAO expert has completed his analysis of the socio-economic survey that was conducted in the metropolitan area of San Salvador and a report will be submitted to the Governments sometime in 1963 on its results. These relate chiefly to the process and causes of rural-to-urban migration and to the employment structure, educational levels and the employment and unemployment pattern of the urban population.

### (d) *Land tenure*

In December 1962 the BTAO/FAO/ILO Technical Assistance Mission completed the work it had begun in 1961 on land-tenure systems and rural labour conditions in Central America. This work consists of a series of studies on the economic characteristics of the various forms of tenure in each country; a survey of rural income distribution in relation to the land-tenure system; and an inquiry among qualified persons for the purpose of defining the main problems of agriculture and agricultural development at the regional and sub-regional level in each country. The Central American Institute of Economic and Social Research has, from the beginning, been the headquarters for this project.

The respective reports, together with a joint report to be drafted by the participating agencies, will be submitted to the Governments in 1963.

## 10. STATISTICAL CO-ORDINATION

In pursuance of resolutions adopted at previous sessions, the ECLA secretariat, with the co-operation of the statistical offices of each Central American country, has prepared the Second Central American Statistical Compendium, which will be published during the first half of 1963.

The preparatory work for the fifth session of the Central American Statistical Co-ordination Sub-Committee has been completed. The session will begin on 14 February 1963 at Tegucigalpa, and its main object will be to formulate the Sub-Committee's programme of future activities with due regard for the results of the programme prepared during its first four sessions and for present integration and economic and social planning requirements.

## Part II

### TECHNICAL ASSISTANCE FOR THE INTEGRATION PROGRAMME DURING 1961 AND 1962

During the two-year period 1961-62, the United Nations provided technical assistance to the Central American countries through the Expanded Programme of Technical Assistance, the Special Fund and the regular programmes of its specialized agencies. The technical assistance provided during this period amounted to \$4 million. Of this figure, \$1.1 million was allocated to the Economic Integration Programme and to projects directly related to economic integration, and \$2.9 million to national programmes.

In compliance with the request made by the Chair-

man of the Committee, regional technical assistance for the Economic Integration Programme covered various fields of activity, including the following: co-ordination of the electric-power programmes of Central America and Panama; a study on industrial prospects in the Central American Common Market; population research; establishment of a Central American textile association and preparation of a project on regional specialization in the textile industry; programming of research on the social and economic aspects of income distribution in Central America, and a survey on total labour

costs in industry and transport and the relationship between productivity, labour costs and social benefits in specific branches of industry; accession of Costa Rica to the Common Market and preparation of the Uniform Central American Import Tariff; a study on regional housing problems; the marketing of grains; and land use. Work was also continued on land tenure and productivity, and co-operation was maintained with the Advanced School of Public Administration for Central America and Panama (ESAPAC).

The above activities were financed through the United Nations Technical Assistance Board.

With respect to the United Nations Special Fund, several work programmes are under way, including studies on water resources for electric power and irrigation, evaluation of forest and mining resources, and the preparation of preliminary projects for a Central American telecommunications network. The project for co-operation with the Central American Research Institute for Industry is also continuing.

### Part III

#### EIGHTH SESSION OF THE COMMITTEE

##### A. MEMBERSHIP, ATTENDANCE AND ORGANIZATION OF WORK

The session was attended by delegations from Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. Panama sent an accredited representative. Representatives of United Nations agencies, the Organization of American States and other international as well as Central American organizations also attended. The delegations were composed as follows:

##### (a) Delegations of member countries

###### Guatemala

*Chairman of the delegation:* Julio Prado García Salas, Minister for Central American Integration.

*Members:* Guillermo Noriega Morales; Mario Efraín Hernández; Gilberto I. Corzo; Guillermo Morales; Arnoldo Castillo; Carlos Steiger; Salvador Toledo; René Chiu Fuentes; Gert Rosenthal; Jorge Augusto Carranza; Hugo Ordóñez; José Carlos Monzón; Julio Maldonado; Gilberto Laguardia Tobar.

*Advisers:* Mario Rey Rosa; Jorge Plihal; Minor Keilhauer; Marco Antonio Soto; Fernando Saravia; Julio Lowenthal; Carlos Brolo; Owen Smith; Gregorio Guirola; Hugh Meharry; Ernesto Rodríguez; Julio Vila; Luis Slesinger C.

###### El Salvador

*Chairman of the delegation:* Salvador Jáuregui, Minister for Economic Affairs.

*Members:* Francisco Argüello Escolán, Under Secretary for Economic Affairs; Victor Manuel Cuéllar Ortiz; Jaime Quesada; Alexander Vásquez; Leonilo Armando Alas; Ramón de Clairmont Dueñas.

*Advisers:* Alfonso Moisés Beatriz; Enrique Ricardo Lima; Ricardo Garza Arriaza; Pedro Noubleau; Manuel Rafael Arce Blandón; Angel Roberto Vaquero; Francisco Ricardo Santana; Mario Piche; Gabriel Siri Sanglas; Alberto Muyschondt; Abelardo Torres; Santiago Rolando Alvarenga; Thomas Medina.

###### Honduras

*Chairman of the delegation:* Jorge Bueso Arias, Minister for Economic and Financial Affairs.

*Members:* Oscar A. Veroy; Mario A. Rendón; Guatemala Fonseca; Guillermo Bueso; Ricardo Reyes; Luis Bográn; Raúl Florez Gómez.

*Advisers:* Héctor N. Pineda; Ricardo Perdomo; Mauricio Castaneda; Zacarías Bendeck.

###### Nicaragua

*Chairman of the delegation:* Gustavo A. Guerrero, Minister for Economic Affairs.

*Members:* Jorge Armijo Mejía; Alvaro Porta; Gustavo Fernández; Carlos Gabuardi; Héctor Wilkinson; Pilar Altamirano; Fausto Zelaya; Guillermo Castillo; Silvio Bolaños; José Luis Montiel; César Guerra; Anibal Ramírez; Hernán Góngora; Jaime Morales.

###### Costa Rica

*Chairman of the delegation:* Raúl Hess Estrada, Minister for Economic and Financial Affairs.

*Members:* Rodrigo Soley Carrasco; Rodolfo Trejos; Rigoberto Navarro; Rolando Ramírez; Carlos Iglesias; Lino Vicarioli; Napoleón Morúa; Fernando Goicoechea.

##### (b) Delegation of Panama

*Representative:* Jorge Ricardo Riba, Technical Director, Department of Planning, Office of the President of the Republic.

##### (c) Specialized agencies of the United Nations

*International Labour Organisation:* M. Rodríguez Macías.

*Food and Agriculture Organization:* M. M. Babbar; Cecil Miles.

*International Monetary Fund:* Edison Zayas.

*International Bank for Reconstruction and Development:* Jacques Vignes; Feliks Bechnski.



(d) *Central American organizations*

*Organization of Central American States (OCAS)*: Marco Tulio Zeledón; Albino Román y Vega; Víctor M. Nieto Garay.

*Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA)*: Pedro Abelardo Delgado; Amílcar Martínez; Rafael Pérez Riera; J. Mario Ponce; Abraham Bennaton Ramos; Mauricio Baca Muñoz.

*Advanced School of Public Administration for Central America and Panama (ESAPAC)*: Wilburg Jiménez Castro.

*Central American Research Institute for Industry (ICAITI)*: Otto J. Stern; Francisco Aguirre; Mario Dalponte.

*Central American Bank for Economic Integration (CABECI)*: Enrique Delgado; Rafael Huezco Selva.

(e) *Other international organizations*

*Organization of American States (OAS)*: Jorge Sol Castellanos; Alvaro Magaña.

*Inter-American Development Bank (IDB)*: Arturo Morales; Rodrigo Botero.

*Panel of Experts of the Alliance for Progress*: Manuel Noriega Morales.

*OAS-IDB-ECLA Ad Hoc Committee on Co-operation*: Edmundo Miquel.

Also present were Mr. José Antonio Mayobre, United Nations Commissioner for Industrial Development; Mr. Luis M. Ramírez-Boettner, representing the Technical Assistance Board and the United Nations Special Fund; and Mr. Franklin E. Kozik, representing the United Nations Information Centre for Central America.

The secretariat of the Economic Commission for Latin America was represented by Mr. Cristóbal Lara Beautell, Director of the Mexico Office; Mr. Carlos Manuel Castillo, Deputy Director; Mr. Porfirio Morera Batres of the Bureau of Technical Assistance Operations; Mr. Stanislav Ambrozek, Mr. David Ibarra and other staff members of the Bureau.

At the opening meeting, Mr. Salvador Jáuregui, Minister for Economic Affairs of El Salvador, welcomed the Ministers for Economic Affairs of the other Central American countries. Mr. Gustavo A. Guerrero, Minister for Economic Affairs of Nicaragua, replied on behalf of the other delegations.

At the first working meeting Mr. Salvador Jáuregui, Chairman of the delegation of El Salvador, was elected Chairman of the session, and Mr. Julio Prado García Salas, Chairman of the delegation of Guatemala, was elected Rapporteur.

The Committee conducted its business in plenary meetings. For some items of the agenda—Electric power, Housing, Transport and Agricultural development—working groups were set up. In addition an *ad hoc* group was established to examine certain aspects of the fund for the seasonal financing of coffee.

B. AGENDA

The Committee considered and adopted the provisional agenda (E/CN.12/CCE/264/Rev.1) prepared by the ECLA secretariat, changing the order of the items so as to facilitate the tasks of the working groups. At the request of the delegation of Guatemala, the following items were added: coffee stabilization fund, regional development of the tourist trade, and industrial standards.

The agenda as finally adopted was as follows:

1. Opening meeting
2. Election of the Chairman and Rapporteur
3. Consideration and adoption of the agenda
4. General situation and future outlook of the Central American Economic Integration Programme

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265)

*Reference documents:*

Multilateral Treaty on Free Trade and Central American Economic Integration (E/CN.12/492-E/CN.12/CCE/151)

Agreement on the Régime for Central American Integration Industries (E/CN.12/492-E/CN.12/CCE/151)

Central American Agreement on the Equalization of Import Duties and Charges (E/CN.12/533-E/CN.12/CCE/184) and its Managua and San José Protocols (E/CN.12/533-E/CN.12/CCE/184; E/CN.12/552-E/CN.12/CCE/224; E/CN.12/657-E/CN.12/CCE/258/Rev.1)

General Treaty on Central American Economic Integration (E/CN.12/552-E/CN.12/CCE/224)

Agreement Establishing the Central American Bank for Economic Integration (E/CN.12/552-E/CN.12/CCE/224)

Central American Agreement on Fiscal Incentives to Industrial Development (E/CN.12/CCE/258/Rev.1)

Instruments concerning the Accession of Costa Rica to the Central American Common Market (E/CN.12/657-E/CN.12/CCE/258/Rev.1 and E/CN.12/658-E/CN.12/CCE/262/Rev.1)

5. Central American development planning and economic integration
6. Measures for the establishment of a Central American customs union

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265)

7. Trade policy with other economic groups or countries

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265)

*Cuadros comparativos del comercio exterior, sector externo e incidencias arancelarias, en Centroamérica (CCE/VIII/DT.2)\**

*Reference documents:*

*Informes de las Décima, Undécima y Duodécima Reuniones del Subcomité de Comercio Centroamericano (E/CN.12/CCE/234, E/CN.12/CCE/239, E/CN.12/CCE/247)\**

8. Draft uniform customs code for Central America

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265)

*Reference documents:*

*Informe de la Reunión del Grupo de Trabajo sobre Código Aduanero Uniforme Centroamericano (E/CN.12/CCE/240)\**

9. Technological research, productivity and training

*Documents:*

*Informe del Director del Instituto Centroamericano de Investigación y Tecnología Industrial (E/CN.12/CCE/274)\**

*Informe de la Organización Internacional del Trabajo (E/CN.12/CCE/275)\**

*Informe del Director de la Escuela Superior de Administración Pública América Central y Panamá (E/CN.12/CCE/276)\**

10. Technical assistance

*Documents:*

*Informe del Representante Regional de la Junta de Asistencia Técnica de las Naciones Unidas para Centroamérica (E/CN.12/CCE/277)\**

11. Central American Common Market

(a) Equalization of tariffs

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265)

*Centroamérica: Cuadros comparativos de derechos arancelarios, equivalentes totales ad valorem, comercio exterior e ingresos percibidos por concepto de importación, para los rubros pendientes de equiparación arancelaria (CCE/VIII/DT.1)\**

*Reference documents:*

Central American Agreement on the Equalization of Import Duties and Charges (E/CN.12/533-E/CN.12/CCE/184) and its Managua and San

José Protocols (E/CN.12/533-E/CN.12/CCE/184; E/CN.12/552-E/CN.12/CCE/224; E/CN.12/657-E/CN.12/CCE/258/Rev.1)

General Treaty on Central American Economic Integration (E/CN.12/552-E/CN.12/CCE/224) and its Protocol (E/CN.12/658-E/CN.12/CCE/262/Rev.1)

*Informes de la Décima, Undécima y Duodécima Reuniones del Subcomité de Comercio Centroamericano (E/CN.12/CCE/234, E/CN.12/CCE/239, E/CN.12/CCE/247)\**

Report of the third special session of the Central American Economic Co-operation Committee (E/CN.12/657-E/CN.12/CCE/258/Rev.1)

Report of the fourth special session of the Central American Economic Co-operation Committee (E/CN.12/658-E/CN.12/CCE/262/Rev.1)

12. Industrial development

(a) Application of the Agreement on the Régime for Central American Integration Industries

(b) Central America: resources and possibilities of industrial development

(c) Central American Code of Industrial Standards

(d) Other matters

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265)

*Actas números dos y tres del Consejo Ejecutivo del Tratado General de Integración Económica Centroamericana (CCE/VIII/DT.3)\**

*Nota de la Secretaría de la CEPAL: Examen preliminar de posibilidades de desarrollo industrial integrado en Centroamérica (E/CN.12/CCE/245)\**

*Informe de la Reunión del Grupo de Trabajo Ad hoc sobre Desarrollo Industrial (E/CN.12/CCE/246)\**

*Llantas para automóvil en Centroamérica (Estudio elaborado por la Organización Internacional del Trabajo (E/CN.12/CCE/268)\**

*Informe de la Primera Reunión de Inversionistas Centroamericanos (E/CN.12/CCE/206)\**

*Resolución 5 (CEC) del Consejo Económico Centroamericano (CCE/VIII/DT.8)\**

13. Agricultural development

*Documents:*

*Informe de la Organización de las Naciones Unidas para la Agricultura y la Alimentación (E/CN.12/CCE/269)\**

*Estructura y funcionamiento de las plantas de almacenamiento y conservación de granos en Centroamérica (E/CN.12/CCE/270)\**

\* Documents marked with an asterisk are available in Spanish only.

*Progreso de los estudios sobre producción y mercado integrado de granos en Centroamérica* (E/CN.12/CCE/271-FAO/CAIS/63/1)\*

*Comercialización de granos en Centroamérica y Panamá* (E/CN.12/CCE/272-FAO/CAIS/62/1/Rev.1)\*

*Informes de las reuniones de organismos de fomento y estabilización de precios en Centroamérica, convocadas por la Secretaría Permanente del Tratado General de Integración Económica Centroamericana* (CCE/VIII/DT.4)\*

*Proyecto de evaluación coordinada de recursos pesqueros y su comercialización para los países centroamericanos* (CCE/VIII/DT.6)\*

*Reference documents:*

*Informes del Grupo de Trabajo para el abastecimiento de granos en Centroamérica y Panamá* (E/CN.12/CCE/273)\*

14. Development of transport

(a) Central American road plan

(b) Maritime transport and harbour development

(c) Other matters

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265)

*Red vial centroamericana (informe preliminar)* (E/CN.12/CCE/250-TAO/LAT/38)\*

*Reference documents:*

*Proyecto de Código Marítimo Uniforme para los países centroamericanos* (TAO/LAT/27)\*

*Disposiciones para la legislación y reglamentación portuaria uniforme en Centroamérica* (TAO/LAT/28)\*

*Métodos y criterios actuales de diseño y construcción de pavimentos flexibles en Centroamérica (informe preliminar)* (E/CN.12/CCE/SC.3/6-TAO/LAT/37)\*

15. Development of electric power

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265)

*Informe de la Primera Reunión del Subcomité Centroamericano de Electrificación* (E/CN.12/CCE/207)\*

*Reference documents:*

*Estadísticas de energía eléctrica de Centroamérica y Panamá* (E/CN.12/CCE/SC.5/5)\*

*Estudio comparativo de costos de la energía eléctrica en Centroamérica y Panamá, 1959* (E/CN.12/CCE/SC.5/6-TAO/LAT/31)\*

*Coordinación de programas de electrificación en Centroamérica y desarrollo eléctrico combinado de Honduras y El Salvador* (E/CN.12/CCE/SC.5/7-TAO/LAT/32)\*

16. Housing and planning problems, building and construction materials industries

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265)

*Informe del Grupo de Trabajo sobre Coordinación Modular en Vivienda* (E/CN.12/CCE/SC.4/10; E/CN.12/CCE/SC.4/II/GTCM/5/Rev.1)\*

*Reference documents:*

*Coordinación modular en la vivienda económica* (E/CN.12/CCE/SC.4/9)\*

*Glosario de términos empleados en arquitectura y construcción en el Istmo Centroamericano* (E/CN.12/CCE/SC.4/10-TAO/LAT/36)\*

*Industrias o establecimientos que fabrican materiales de Construcción en el Istmo Centroamericano* (E/CN.12/CCE/SC.4/15)\*

*Estado actual de los recursos naturales del Istmo Centroamericano y su posible aplicación en la manufactura de materiales de construcción utilizables en la vivienda* (E/CN.12/CCE/SC.4/16)\*

*Programas de construcción de viviendas en los países del Istmo Centroamericano para 1962-1963 y su relación con los materiales de construcción requeridos* (E/CN.12/CCE/SC.4/17)\*

*Materiales de construcción requeridos para los programas de construcción de viviendas, 1962-1963, en los países del Istmo Centroamericano* (E/CN.12/CCE/SC.4/17/Add.1)\*

17. Social aspects of development in Central America

(a) Population

(b) Income distribution

(c) Land tenure

(d) Labour cost and productivity

*Documents:*

General situation and future outlook of the Central American Integration Programme. Note by the ECLA secretariat. (E/CN.12/666-E/CN.12/CCE/265)

18. Other matters

(a) Coffee stabilization fund

(b) Regional development of the tourist trade

*Documents:*

*Resolución 6 (CEC) del Consejo Económico Centroamericano* (CCE/VIII/DT.8)\*

(c) Others

\* Documents marked with an asterisk are available in Spanish only.

19. Date and place of the ninth session of the Committee
20. Consideration and adoption of the Report of the Rapporteur.

### C. SUMMARY OF PROCEEDINGS

#### 1. *General situation of the Programme*

His Excellency Mr. Julio A. Rivera, President of the Republic of El Salvador, sent a message on the occasion of the opening of the eighth session, on 21 January 1963, in which he said that the policy of Central American economic integration was a matter of vital and immediate urgency and that the final preparations for the Common Market already made it possible to speak of a goal that had been attained. He added that:

"Ten years have elapsed since the first session of the Central American Economic Co-operation Committee, and its first great achievement has taken form: the Central American Common Market. This has been built upon the basic concept of regional integration that was developed by the United Nations Economic Commission for Latin America, and it has recently reached a further stage with the accession of Costa Rica, a matter of great satisfaction to my Government and my people. And in expressing the sincere hope that the decision taken by our sister Republic will redound to the benefit of its progressive-minded people and of Central America as a whole, may I take this opportunity of expressing to the Observer for Panama my heartfelt wish that his country will one day contribute to a further expansion of the Central American Union by bringing to it the fullness of its juridical and moral qualities and by adding its resources to the programmes for the development of the area."

The eighth session of the Economic Co-operation Committee took place after Costa Rica's accession to the Common Market. In addition, the Central American Agreement on Fiscal Incentives to Industrial Development had been signed; considerable progress in the equalization of tariffs had been achieved; and the Central American Economic Council, the Executive Council, the Permanent Secretariat of the General Treaty and the Central American Bank for Economic Integration had been established as organs of the Programme.

Against the background of this progress towards economic integration, the Committee turned its attention at the eighth session to the first Protocol for giving effect to the Régime for Integration Industries, which was approved in 1958, and to the tariff arrangements specifically intended to promote the establishment of new industries in the member countries. Consideration of these items was concluded with the signing, on 29 January 1963, of the relevant instruments, which represent a further step forward in activities which have been pursued for many years under the integration programme.

As regards additional items, the Committee considered that it must henceforth work towards enabling Central America, as a unit, to establish closer economic

ties with other countries, particularly its neighbours, to formulate a common trade policy to that end, and to define the methods of industrial development needed to bring about full integration of the Central American economies. The work programme decided upon by the Committee at the eighth session also places greater emphasis on directly productive sectors and on the infrastructure with the object of bringing about a progressive merging of the different national economic systems.

The Committee also stated its intention of expediting the liberalization of trade through the granting of full free-trade treatment to products still subject to temporary régimes of exemption. It decided, moreover, to assign and increasingly important place in the Programme to the social aspects of economic development. Particular attention was paid to the problems arising in Central America from the deterioration of the external sector of the economy and from the attendant fiscal repercussions and to the problems which might result from the liberalization of intra-Central American trade.

Greater mobility of the factors of production among the member countries was stated by the Committee to be necessary to the achievement of complete economic integration and to provide an effective basis of reciprocity.

The detailed consideration of these items, which was facilitated by the note prepared by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265), enabled the Committee to evaluate the programmes of work and to adopt the decisions described in the following sections of this report.

#### 2. *Common Market*

The Committee's work on this item was aimed at giving full effect to the Common Market with the least possible delay. The Committee decided to revise the temporary régimes of exemption from free-trade treatment in order that, wherever possible, the liberalization process and the progressive lowering of tariffs might be accelerated. It also urged prompt action to complete the studies needed to prepare the special agreements on production and distribution which, under the terms of the General Treaty, are required in the case of a few agricultural commodities in order that they may be admitted to free trade. It was also decided that a review of the items subject to restrictions for an indefinite period should be begun so that progressive tariff reductions leading to free trade in these items might be established before the end of the interim period.

It was considered that the effective functioning of the Common Market required a regional approach to certain problems which have so far come under the jurisdiction of domestic legislation. This applies to health regulations which, if applied unilaterally, might hamper trade among the Central American countries. On this point, it was decided to request the Regional International Agricultural Health Organization (OIRSA) to study the problem and to seek solutions based on joint regional action.

The equalization of tariffs was considered by the Committee on the basis of data submitted by the ECLA secretariat (CCE/VIII/DT.1) and of the agreements on the revision of tariffs adopted by the Executive Council and by the Committee itself at its third special session held at San José, Costa Rica. New tariff levels were set differing from some of those previously established in the Central American Agreement on the Equalization of Import Duties and Charges and its San José and Managua Protocols. It was decided to recommend that the Governments should, at that session, sign an additional protocol approving the changes made.

Some delegations pointed to the need for greater flexibility in the tariff equalization system, so that the uniform duties and charges might be adjusted to changes in fiscal and other requirements.

With respect to the customs code, the Committee ratified the decisions taken at its fourth special session and recommended that, in preparing the final text of the draft code at the technical level, the principal aims should be the establishment of uniform standards and provisions consistent with the immediate requirements of the Common Market but capable, at the same time, of facilitating the application of the code, within the context of a possible future customs union.

In its consideration of measures for giving full effect to the Common Market, the Committee examined the kind of action that would be best suited to the eventual establishment of a customs union among the member countries. In this connexion, it was decided to embark forthwith on the studies needed to determine the character and functioning of such a union, having regard in particular to its fiscal repercussions, to the possible relationship between its functioning and that of the existing Central American integration arrangements, and to the problems relating to the mobility of the factors of production.

Resolution 118 (CCE) entitled "Customs union" and resolution 119 (CCE) entitled "Protocol to the Central American Agreement on the Equalization of Import Duties and Charges" were adopted.

### 3. *Economic ties of Central America with other countries or groups of countries*

Apart from the uniform import tariff, the Central American countries do not, either individually or jointly, have any common trade policy with respect to third countries. It was pointed out in the discussion that during the process of setting up the Common Market the contracting States had to forego their earlier trade agreements with other countries in order to achieve Central American economic unity, and that, under the existing economic integration agreements, they have undertaken to act in union in establishing economic ties with foreign countries.

As a result of its discussions, the Committee decided that the prompt formulation and adoption by the Central American Governments of a common trade policy towards other countries and economic groupings was a matter of the greatest importance and that a single

Central American negotiating body should be set up for this purpose.

The ECLA secretariat was asked to compile the background data needed for formulating such a uniform policy and, specifically, to carry out economic studies on the export prospects of additional agricultural products as well as of items manufactured with regional raw materials and of those relating to industries which require access to markets outside Central America in order to operate efficiently. It was also requested to undertake initial research on the extent to which the Central American economy and that of other Latin American countries might now or in future be able to complement each other.

As far as the geographic orientation of trade policy is concerned, the Committee stressed that the possibilities of closer economic relations with neighbouring countries should be analysed. It asked the Permanent Secretariat of the General Treaty to do this and to devise measures in addition to those of a purely commercial nature which might attract to Central America the technology and capital that would enable it to obtain access to other markets.

As for the immediate future, the Committee recommended that the Governments should ask the Secretary-General of the Permanent Secretariat to seek means of achieving closer economic ties with other countries, including the establishment of a permanent mission to the organs of the European Common Market through which Central America could keep in close touch with the progress of that organization.

It likewise asked the Permanent Secretariat to ensure that liaison was maintained between the Central American Common Market and the Latin American Free Trade Association (ALALC).

Resolution 120 (CCE) entitled "Economic ties of Central America with other countries and groups of countries" was adopted.

### 4. *Industrial development*

The Committee studied the trend of Central American industrialization during the previous decade. From the point of view of the economy as a whole, the progress achieved was not enough to have any appreciable effect on the economic structure of the Central American countries or on the process of import substitution. In fact, the value added by the manufacturing sector between 1950 and 1960 amounted to no more than 12 to 13 per cent of the total product. During the past five years, on the other hand, trade in manufactured goods between the Central American countries increased more rapidly than trade in other goods, and its rate of increase will tend to be even higher as the General Treaty takes full effect.

It is now recognized that changes in the manufacturing sector must be brought about through the establishment of new branches of industry on a fairly large scale and through the substitution of imports not only of consumer products but also of intermediate goods, raw materials and some capital goods.

This requires an active industrialization policy on the part of the five Governments based on regional criteria. In order to facilitate the formulation of such a policy, the Committee decided that comprehensive studies and research should be carried out as soon as possible for the purpose of defining and analysing the over-all prospects for import substitution and the expansion of production and for trade in manufactured items of Central American origin. These studies should also include a survey of mineral and agricultural resources; the determination and evaluation of development prospects in specific branches of industry; Central America's characteristics and requirements with respect to the training of industrial manpower; and the present situation and future trends as regards the distribution of industrial activities among the various Central American countries. The Committee requested the United Nations to provide the technical assistance and other resources needed for these tasks, which would be carried out with the assistance of the ECLA secretariat and the relevant agencies.

A separate request was made to the International Labour Organization for assistance in carrying out the study on industrial manpower previously referred to. In this connexion, the representative of Nicaragua said that if it was decided to set up a Central American polytechnical institute, his Government would like to go on record as inviting its establishment in Nicaragua.

The Committee was also anxious that Governments should adopt uniform measures to prevent the growth of restrictive trade practices in the Central American countries and to encourage competition within the Common Market.

Also, as it had done at previous sessions, the Committee expressed its interest in the adoption of standards of quality for manufactured goods intended for international trade. It recommended that the Central American Research Institute for Industry should formulate these standards on a purely Central American basis and that they should cover not only the quality of goods but also nomenclature and uniform specifications. The Committee recommended that until such time as uniform industrial standards were established in Central America, the Governments should consult the Institute before laying down national standards in order to ensure their future application on a regional and common basis.

Resolutions 121 (CCE) entitled "Industrial Development" and 122 (CCE) entitled "Training of the labour force" were adopted.

##### 5. *Application of the régime for integration industries*

The Committee devoted several working meetings to the draft Protocol to the Agreement on the Régime for Central American Integration Industries which had been prepared by the Executive Council of the General Treaty at its second and third sessions. In addition to provisions concerning the first two integration plants, the draft Protocol contains a chapter on the system of uniform tariffs to be applied when the plants begin production under specific conditions with respect to capacity and other factors. The provisions finally adopted by the Committee of Ministers are set

out in an annex to the present report. These provisions were recommended to Governments for signature at the session and were signed on 29 January 1963.

In order to make it clear that the purpose of the régime for integration industries is to encourage industrial activity, article 1 of the Protocol states that the benefits of the Agreement on the Régime may not be granted in such manner as to limit the trade carried on under the General Treaty before the relevant protocols were signed.

In connexion with the consideration of some of the provisions of the draft Protocol, the representatives of several countries requested that the record should show the interpretation placed on those provisions. The Committee itself defined the scope of other provisions, as indicated below.

With respect to the concept of normal value referred to in article 8, the representative of Honduras thought that the definition should take into account whether the export price was fixed with the intention of directly affecting Central American production.

With regard to article 15, the Committee decided that imports of caustic soda do not require previous authorization and may be effected through payment of the equalized tariff provided for in the Protocol to the Agreement on the Régime for Central American Integration Industries.

In connexion with article 21, the representative of El Salvador stated his view that the mandatory offer of shares should be effected at prices which in no case exceeded their book value.

With respect to article 25 concerning the obligation of the enterprise to ensure specific prices of sale to the final consumer, the Committee decided that these prices should be understood to exclude any excise duties that might be imposed in future. It also recommended that the member countries should be authorized to impose such excise duties on tires and inner tubes as might be necessary. The Committee made it clear that the real prices referred to in the second paragraph of the article should be broadly representative.

With regard to the provisions of article 27 on the composition and offer of capital, the representative of Honduras stated that, in his view, these should impose an obligation only as regards the offer of capital of Central American origin and that, in any case, they should not constitute a precedent. The representative of Guatemala pointed out that there should, in any event, be an effective participation of Central American capital.

In connexion with the industries mentioned in article 28, it is understood that new industries will be defined in accordance with the criteria laid down in the Central American Agreement on Fiscal Incentives to Industrial Development.

As for the Committee's decision to delete the second paragraph of article 32 of the draft Protocol, which authorized the unilateral application of the uniform duties and charges included in the special régime, the representatives of El Salvador and Nicaragua agreed

to the deletion but wished to place on record their view that the application of these duties and charges would thereby be made less flexible.

On the other hand, with respect to the scope of the Transitional Article of the Agreement on the Régime for Integration Industries, the Committee specified that the declaration of a second plant by an industry already declared to be an integration industry would have the same effect as if it had been originally included in the Agreement. It also decided that the establishments producing caustic soda and insecticides referred to in the Protocol shall be deemed to constitute a single plant for the purposes of the said Transitional Article.

Resolution 123 (CCE) entitled "Protocol to the Agreement on the Régime for Central American Integration Industries" was adopted.

#### 6. *Economic integration and development planning*

In considering this item of the agenda, the Committee had before it the reports submitted by the Executive Chairman of the Central American Advisory Committee on Planning and the head of the Joint Mission. Both the Advisory Committee and the Mission had been established in compliance with a request from the Central American Economic Council to the OAS/IDB/ECLA *Ad Hoc* Committee on Co-operation. The Advisory Committee on Planning is responsible for the over-all orientation of the work of the Joint Mission, whose basic nucleus of experts was established during the first quarter of 1963.

In the course of the discussion, the Committee confirmed the decision taken previously by the Governments to prepare their national development plans on a co-ordinated basis and with a view to the eventual formulation of a single regional plan. Stress was laid on the need for defining the fields of economic and social activity which should initially be established on a Central American basis and those which might gradually be programmed on that basis. Within this context, prime importance was attached to the setting of regional growth targets—both general and sectoral—so that basic co-ordination of national plans could be introduced from the very beginning. The need for strengthening national planning agencies was also stressed. In connexion with the training of Central American experts, the Latin American Institute for Economic and Social Planning was requested to offer an intensive course on development, which would be given in Central America in 1963.

The Committee further recommended that the work being done by the Joint Central American Programming Mission should include a study on the most suitable methods and procedures for effecting the co-ordination of the national plans referred to above.

These and other provisions are contained in resolution 124 (CCE) on "Development planning".

#### 7. *Agricultural development*

The Committee undertook a general review of the activities under the Economic Integration Programme relating to agriculture, stock-farming and fisheries. Its consideration of these matters was based on the docu-

ments prepared by FAO, the Permanent Secretariat of the General Treaty and the ECLA secretariat and on the studies to be submitted to the Agricultural Development Sub-Committee at its first session.

Detailed consideration was given to the present situation of the agricultural sector and to the work programme of the past two years, particularly as regards problems of marketing and storage of grains, the establishment of the technical framework for the preparation and co-ordination of agricultural censuses and statistics, research on land tenure and the distribution of rural income, and a market analysis for various agricultural products.

The Committee decided that the studies and other work being done by various international agencies should be continued and intensified. It requested that the first session of the Agricultural Development Sub-Committee should be held in the near future so that, in co-operation with the Ministers of Agriculture, the Sub-Committee might embark on its work programme through the preparation of studies which would provide background data and facilitate the programming of agricultural development. It also asked the ECLA secretariat to prepare and publish a printed volume containing the principal studies on Central American agriculture problems undertaken in connexion with the Economic Integration Programme.

The Committee viewed favourably and gave its support to the work of the development and stabilization agencies that have been principally concerned with the co-ordination of national policies and establishment of a regional organization for the marketing and storage of grain.

In connexion with the items concerning fisheries, the Committee had before it a document entitled *Evaluación Coordinada de los Recursos Pesqueros* prepared by FAO, and a research programme drafted along similar lines which had been prepared at an earlier stage by the Government of Guatemala. After considering various proposals, the Committee decided in favour of a regional programme of studies on fisheries resources and development possibilities within the framework of economic integration, in which the five Central American countries would participate. The representative of El Salvador communicated his Government's offer to provide the headquarters of the agency to be entrusted with this regional programme.

On this item, resolution 125 (CCE) entitled "Development of agriculture and fisheries" was adopted.

#### 8. *Electric power*

The Committee had before it the report of the first session of the Central American Electrification Sub-Committee (E/CN.12/CCE/207) and a general report on the work of the United Nations Electric Power Mission.

The Committee approved the work programme recommended by the Electrification Sub-Committee and, in addition, proposed that the studies on the combined development of resources and the interconnexion of systems should be supplemented by research on the



effect which such measures might have on the economies of the countries concerned.

In view of the broad repercussions of electric power on the development of other branches of economic activity, and the consequent urgency of accelerating the work on electric power, the Committee requested that the second session of the Electrification Sub-Committee should be held as soon as possible. It felt that this would serve to accelerate the studies being carried out by the Sub-Committee, in co-operation with the United Nations Mission, on the interconnexion of systems and the development of the region's water resources.

Resolution 126 (CCE) entitled "Electric Power" was adopted.

### 9. Transport

The Committee had before it the report of an *ad hoc* working group (CCE/VIII/DT.14) which it had set up to consider this item.

The report was approved by the Committee, which stressed that, in future plans for the development of the Central American road network and in the activities of the Transport Sub-Committee, attention should be given to the areas which so far lacked communications with the rest of the region and to the contribution which those areas might be able to make to the accelerated economic development of Central America.

The Committee also directed the Transport Sub-Committee to undertake studies and to formulate recommendations, at its next session, on the priorities to be assigned to and the economic feasibility of the projects included in the Central American Road Plan, and on the action to be taken on harbours and maritime transport, as well as on the development of transport services in general, with a view to meeting the growing needs of the common market.

### 10. Housing

The Committee considered the Report of the Working Group on Modular Co-ordination in Housing (E/CN.12/CCE/SC.4/10) and the studies undertaken by the ECLA secretariat, in co-operation with the United Nations Bureau of Technical Assistance Operations, on modular co-ordination, construction materials, housing construction programmes in Central America, and the natural resources of Central America which could be used by construction materials industries.

The Committee felt that work on the technical aspects of applying modular co-ordination system in Central America had progressed sufficiently to warrant the introduction of pilot programmes for the construction of low-cost housing according to these systems. It also recommended the adoption of measures for promoting trade in and the use of construction materials of Central American origin, and the carrying out of studies to determine the commercial, institutional and economic factors that tended to limit their use. The various government housing agencies were urged to adopt a common purchasing policy, to prepare a uniform schedule of specifications and, in co-operation with the Central American Research Institute for Industry and the Central American universities, to set up technical re-

search services that would endeavour to improve production methods, foster the use of Central American materials and carry out pilot construction projects.

The Committee felt that the time had come to expand the research activities of the Housing Sub-Committee in two important matters, namely the problems of rural housing and the possibility of establishing, at the Central American level, common standards or legislation designed to facilitate the planning of the development of urban areas.

Resolution 128 (CCE) entitled "Housing" was adopted.

### 11. Social aspects of development

The Committee had before it the report submitted by the ECLA secretariat on the work being done, pursuant to resolutions 73 (CCE) and 94 (CCE), with respect to population, land tenure, income distribution and labour costs and productivity. Experts of BTAO, FAO and the ILO have assisted in this work.

The Committee expressed its satisfaction at the progress which had been made, and it pointed out that the study on income distribution should include an analysis of consumption and savings at different income levels, as this would be helpful in considering the fiscal problems of development.

The Committee decided that its programme of activities should include the less developed sections of the Central American countries, which posed special problems because of the difficulties of linking them up, firstly, with the respective national economies and, secondly, with the economy of the Central American region as a whole. To this end, it asked for studies which would lead to the establishment of broad lines of orientation and economic policy aimed at promoting the growth of the areas concerned.

Resolution 129 (CCE) entitled "Social aspects of development" was adopted.

### 12. Technological research, productivity and training

The Committee had before it a report by the Director of the Central American Research Institute for Industry (E/CN.12/CCE/274) covering the Institute's activities in 1961 and 1962. The Committee recommended that a commission should be established to specify the part which the Institute will play in the new activities and programmes of the Central American countries aimed at achieving integration and accelerating the process of industrial development. To this end, it asked the United Nations to set up the commission as soon as possible, and it asked the regional organs of the Programme to act as advisers in matters relating to economic integration. The report on the work of the commission is to be submitted to the Executive Committee of the Institute at its next session.

With a view to establishing closer ties between the Governments and the Institute in matters of general policy and industrialization activities, it was suggested that the Ministers for Economic Affairs should delegate part of their authority, as members of the Board of Directors, to senior officials of the national agencies concerned.



The Committee considered the report on the activities undertaken in 1961 and 1962 by the ILO Expert Mission (E/CN.12/CCE/275) that is assigned to the Central American Economic Integration Programme. These activities were concerned mainly with vocational training, productivity and organization of enterprises, and equalization of social welfare costs. The ILO likewise continued to give its attention to the manpower aspects of the project on land tenure, in which the Central American University Council, FAO and BTAO are also participating.

The Committee also had before it the report submitted by the Director of the Advanced School of Public Administration for Central America and Panama. This reviews the activities undertaken in 1962, which were directed towards the needs of the Economic Integration Programme. It also describes the work to be done in 1963. The Committee decided to approve the Director's report with satisfaction and to express its confidence in the future activities of the School.

Resolution 130 (CCE) entitled "Central American Research Institute for Industry" was adopted.

### 13. *Technical assistance*

The Committee had before it the report submitted by the representative of the Technical Assistance Board on the activities of the United Nations technical assistance agencies. The report gives a clear picture of the increase in technical assistance activities, particularly in the period 1961-62.

The Committee thanked the United Nations, the Bureau of Technical Assistance Operations, FAO and the ILO for their increasing co-operation and authorized the Chairman of the Committee to submit the requests for technical assistance in 1963-64 deriving from the resolutions adopted at the present session.

Resolution 131 (CCE) entitled "Technical assistance" was adopted.

### 14. *Other matters*

An *ad hoc* group discussed the agenda item on coffee problems. The results of the discussion were submitted to the Committee, which decided to refer them to the Central American Economic Council for further consideration.

With respect to the tourist trade, the Committee decided to request the Permanent Secretariat of the General Treaty, in co-operation with OAS experts, to carry out studies on the prospects of developing the tourist trade in Central America and to submit its findings to the Committee at its next special session.

Resolution 132 (CCE) entitled "Tourist trade" was adopted.

### 15. *Votes of thanks*

The Committee expressed its deep appreciation to the Government of the Republic of El Salvador for the warm hospitality extended to the delegations and for the facilities granted to the conference, and to Mr. Salvador Jáuregui, Minister of Economic Affairs of El Salvador, for his effective conduct of the debates which had contributed to the success of the session.

It congratulated Mr. Julio Prado García Salas, Minister for Central American Economic Integration of the Republic of Guatemala, for the report he had submitted as Rapporteur of the session. It also expressed its appreciation to the ECLA secretariat for its work during the session and for the documents it had prepared in advance. The Committee agreed to include as annex C to its report the Note submitted to it for the eighth session by the ECLA secretariat (E/CN.12/666-E/CN.12/CCE/265).

### 16. *Expression of gratitude to Mr. Cristóbal Lara Beutell*

At the end of the eighth session of the Committee, the Ministers for Economic Affairs of the Central American countries adopted by acclamation a resolution expressing their gratitude for the work accomplished by Mr. Cristóbal Lara Beutell, Director of the Mexico Office of the Economic Commission for Latin America, who was leaving his post in the near future. The Committee thus expressed its appreciation to Mr. Lara Beutell for his contribution to the process by which the Common Market was brought into being and to the activities and studies that led to the formulation of the instruments on which the Central American economic union is based.

### 17. *Date and place of the next session*

The Committee welcomed and accepted the invitation of the Government of Guatemala to hold the ninth session of the Committee in that country during 1964.

## Part IV

### RESOLUTIONS ADOPTED

- |   |   |
|---|---|
| 118 (CCE) Customs union   | 122 (CCE) Training of the labour force  |
| 119 (CCE) Protocol to the Central American Agreement on the Equalization of Import Duties and Charges | 123 (CCE) Protocol to the Agreement on the Régime for Central American Integration Industries |
| 120 (CCE) Economic ties of Central America with other countries and groups of countries               | 124 (CCE) Development planning  |
| 121 (CCE) Industrial development  | 125 (CCE) Development of agriculture and fisheries  |
|   | 126 (CCE) Electric power  |

- 127 (CCE) Transport
- 128 (CCE) Housing
- 129 (CCE) Social aspects of development
- 130 (CCE) Central American Research Institute for Industry
- 131 (CCE) Technical assistance
- 132 (CCE) Tourist grade
- 133 (CCE) Expression of gratitude to the Director of the Mexico Office of the Economic Commission for Latin America

#### 118 (CCE) CUSTOMS UNION

*Resolution adopted on 28 January 1963*  
(E/CN.12/CCE/287)

*The Central American Economic Co-operation Committee,*

##### *Considering*

(a) That, pursuant to article I of the General Treaty on Central American Economic Integration, the Governments of the Central American countries have undertaken to establish a customs union between their territories,

(b) That in view of the substantial progress of the Central American Common Market, which is to be brought into full operation in June 1966, there is a need for measures that will lead to the formation of such a customs union and at the same time hasten the process of bringing the Common Market into full operation,

(c) That for the purposes stated in the preceding preambular paragraphs a study of the required instruments should be started without delay,

##### *Decides*

1. To recommend the Governments to submit to their legislative bodies for ratification the instruments signed and not yet ratified and to deposit the said instruments in the near future;

2. To entrust to the Permanent Secretariat of the General Treaty the study and preparation of the instruments and measures required: (a) for incorporating as soon as possible in the general régime of free trade the greatest possible number of items included in annex A to the General Treaty and, more particularly, those subject to indefinite restrictions, and for adopting the supplementary agreements provided for in the Treaty; (b) for completing the uniform Central American Import Tariff and for incorporating in schedule A (immediate equalization) the items at present appearing in schedule B (progressive equalization) of the Agreement on the Equalization of Import Duties and Charges and the protocols thereto; (c) for the adoption of the protocols and additional provisions provided for in the Central American Agreement on Fiscal Incentives to Economic Development;

3. To request the ECLA secretariat to carry out a basic study of the possible economic and fiscal repercussions of a customs union, taking into account its

adaptability to the conditions prevailing in Central America and to the objectives being sought through integration;

4. To request both organs to carry out an immediate study of the various possibilities as regards the form, the functioning and the establishment of the future customs union, taking into account its relationship with the existing integration treaties.

#### 119 (CCE) PROTOCOL TO THE CENTRAL AMERICAN AGREEMENT ON THE EQUILIZATION OF IMPORT DUTIES AND CHARGES

*Resolution adopted on 28 January 1963*  
(E/CN.12/CCE/288)

*The Central American Economic Co-operation Committee,*

##### *Considering*

(a) That article XII of the Central American Agreement on the Equalization of Import Duties and Charges authorizes Governments to renegotiate the uniform duties and charges and to modify the standardized tariff classification, and lays down the procedure to be followed for this purpose,

(b) That at the present eighth session of the Central American Economic Co-operation Committee the uniform duties and charges and the tariff classifications previously agreed upon for specific items in the aforesaid Agreement and its protocols have been renegotiated,

*Decides* to recommend that, on the occasion of the present eighth session of the Central American Economic Co-operation Committee, the representatives of the Governments of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, being vested with the corresponding full powers, should sign in the city of San Salvador, El Salvador, the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, which shall be known as the San Salvador Protocol.

#### 120 (CCE) ECONOMIC TIES OF CENTRAL AMERICA WITH OTHERS COUNTRIES AND GROUPS OF COUNTRIES

*Resolution adopted on 28 January 1963*  
(E/CN.12/CCE/289)

*The Central American Economic Co-operation Committee,*

##### *Considering*

(a) That under the terms of the economic integration treaties the Central American Governments have undertaken to pursue a common trade policy in their relations with the outside world,

(b) That a Central American policy regarding economic relations with the rest of the world is of the greatest importance to the continued progress of economic integration and the joint development of the region,

(c) That there is therefore a need for policy measures which will strengthen regional foreign trade and

foster mutually advantageous and mutually complementary economic relations with other countries or groups of countries,

#### *Decides*

1. To recommend the Central American Governments to adopt a common trade policy towards other countries and economic groupings and to set up a joint negotiating body to carry out that policy;

2. To request the ECLA secretariat to prepare studies on the prospects of increasing and intensifying exports of additional agricultural products as well as of items manufactured with regional raw materials and of those relating to industries which require access to markets outside Central America in order to operate under economic conditions, and to undertake initial research on the extent to which the economy of the region and that of other Latin American countries or groups of countries might now or in future be able to complement one another;

3. To request the Permanent Secretariat of the General Treaty to analyse the possibilities of closer trade relations with countries near Central America, and in so doing to devise measures in addition to those of a purely commercial nature which might promote an inflow of technology and capital;

4. To recommend that the Governments authorize the Secretary-General of the Permanent Secretariat to seek means of achieving the closer ties referred to in the preceding paragraphs and that they use the existing agencies and machinery of Central American economic integration in order to further the objectives of paragraph 3;

5. To recommend the Permanent Secretariat of the General Treaty to maintain permanent liaison with the Latin American Free Trade Association, and to authorize it to establish a permanent Central American mission to the organs of the European Common Market.

### 121 (CCE) INDUSTRIAL DEVELOPMENT

*Resolution adopted on 28 January 1963  
(E/CN.12/CCE/290)*

*The Central American Economic Co-operation Committee,*

#### *Considering*

(a) The need to promote the industrial growth of Central America in accordance with new patterns of industrial development consistent with the accelerated process of Central American economic integration,

(b) The desirability of facilitating the adjustment of industrial activities to more efficient forms of production, through the formulation of long and short-term development programmes which would take advantage of the possibilities of team-work and division of labour,

(c) That the efforts to promote and support industrial endeavours and make the most efficient use of regional and international financial resources call for a careful examination of industrial projects to determine those which are most advantageous and for basic re-

search on the resources and prospects of the manufacturing sector,

#### *Decides*

1. To undertake a programme of basic research on the manufacturing sector in Central America, which would include the following aspects:

(a) Identification and evaluation of the development possibilities in specific branches of industry, including comprehensive studies of economic viability and on industrial projects up to the investment phase;

(b) Examination of the industrial potentialities of agricultural raw materials which are produced or are capable of being produced in Central America;

(c) A study, by branch of industry, of the availability and degree of training of manpower in Central America and the requirements for skilled manpower deriving from the process of industrialization;

(d) A selective study of the location and characteristics of the mineral resources which could be used in existing industries or in those for which the economic prospects in Central America are considered good;

(e) A study of the prospects for industrial specialization in the light of installed capacity and expansion plans in selected branches of manufacturing;

(f) Determination of those industrial complexes which would present significant economic advantages or would support a large number of related activities;

(g) A study of the areas where productive activity in Central America tends to be located, in the light of the factors affecting this phenomenon and the effects of economic integration;

2. To request the United Nations, through the ECLA secretariat, to enter into negotiations with the competent agencies with a view to setting up the programme of industrial research described in paragraph 1, with the co-operation of the Central American Bank for Economic Integration and the Central American Research Institute for Industry in their respective fields of activity.

3. To continue and accelerate the Central American Survey Programme and to make use of its results for the purpose of a general evaluation of Central America's natural resources.

### 122 (CCE) TRAINING OF THE LABOUR FORCE

*Resolution adopted on 28 January 1963  
(E/CN.12/CCE/291)*

*The Central American Economic Co-operation Committee,*

*Considering* that skilled labour in the form of technicians and supervisors, foremen and specialized workers is needed for the purposes of economic development and integration, and that it is essential to ascertain the manpower situation in the countries of the region and to take steps to meet this need,

#### *Decides*

1. To request the International Labour Office to carry out, as soon as possible, a study of the existing

situation in the Central American countries with respect to the technical training of industrial manpower at various levels, in terms of real present and future requirements and taking into account all the studies, inquiries and research already undertaken or being carried out in the region;

2. To request that the suggestions and recommendations resulting from the aforementioned study should be submitted by the ILO, through the ECLA secretariat, to the Central American Economic Co-operation Committee for consideration at one of its forthcoming sessions.

#### 123 (CCE) PROTOCOL TO THE AGREEMENT ON THE RÉGIME FOR CENTRAL AMERICAN INTEGRATION INDUSTRIES

*Resolution adopted on 28 January 1963  
(E/CN.12/CCE/292)*

*The Central American Economic Co-operation Committee,*

##### *Considering*

(a) That the Agreement on the Régime for Central American Integration Industries was signed by the Central American countries in May 1958 for the purpose of promoting integrated development and the rational use of resources,

(b) That the provisions of the Agreement on the Régime were endorsed by the General Treaty on Economic Integration, which was signed by the Governments in December 1960,

(c) That the industrial projects dealt with in the Protocol to the Agreement on the Régime have been the subject of technical studies undertaken by the Central American Research Institute for Industry in accordance with the procedure laid down in that Agreement and that the Executive Council has prepared a draft Protocol,

*Decides* to recommend that, on the occasion of the present eighth session of the Central American Economic Co-operation Committee, the representatives of the Governments of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, being vested with the corresponding full powers, should sign in the city of San Salvador, El Salvador, the Protocol to the Agreement on the Régime for Central American Integration Industries.

#### 124 (CCE) DEVELOPMENT PLANNING

*Resolution adopted on 28 January 1963  
(E/CN.12/CCE/293)*

*The Central American Economic Co-operation Committee,*

*Considering* that in view of the progress of the Central American countries towards economic integration, their national development plans must be adapted to the requirements of the region as a whole through the application of purely Central American criteria that will make the growth targets being sought easier to achieve,

##### *Taking into account*

(a) The decision of the Central American Governments to promote co-ordinated economic and social planning at the regional level,

(b) The action taken in compliance with resolution 2 of the Central American Economic Council, namely, the establishment of the Central American Advisory Committee on Planning and the present arrangements for setting up the joint technical assistance mission requested under the same resolution,

##### *Decides*

1. To recommend that the Governments, in preparing their national economic and social development plans, should take into account the purposes of the Economic Integration Programme and the broader framework it offers, and that these plans should be co-ordinated at the Central American level through the application of regional criteria with a view to the eventual formulation of a regional economic and social development plan;

2. To recommend that the Joint Central American Programming Mission should, as part of its present activities, consider and propose to the Governments the machinery and methods best suited to the regional co-ordination of national development plans, and in particular: (a) define, first of all, the areas of economic and social activity in which development programming should be formulated on a Central American basis and, subsequently, the new sectors which would be programmed under this approach; (b) formulate and propose to the Governments for adoption regional targets—both general and sectoral—for economic and social development that will provide a basis for co-ordinating the national plans;

3. To recommend that the national planning agencies and the Joint Central American Mission should take advantage of and use the results of what has been done by the various sub-committees of the Economic Integration Programme;

4. To request the ECLA secretariat to continue its arrangements for offering, in co-operation with the Latin American Institute for Economic and Social Planning, in 1963, an intensive course on Central American development programming;

5. To recommend that the Governments should strengthen their national planning offices, and to request the agencies serving the Economic Integration Programme to provide the technical assistance required for this purpose.

#### 125 (CCE) DEVELOPMENT OF AGRICULTURE AND FISHERIES

*Resolution adopted on 28 January 1963  
(E/CN.12/CCE/294)*

*The Central American Economic Co-operation Committee,*

*Considering* that in the process of Central America's integrated development the growth and transformation of agricultural activity is one of the chief factors in

achieving an expansion of industrial manufacturing, the maintenance of a high import capacity and a proper distribution of income,

Taking into account the following documents submitted to it for consideration at the present eighth session: *Informe de la Organización de las Naciones Unidas para la Agricultura y la Alimentación* (E/CN.12/CCE/269); *Progreso de los estudios sobre producción y mercado integrado de granos en Centroamérica* (E/CN.12/CCE/271-FAO/CAIS/63/1); *Comercialización de granos en Centroamérica y Panamá* (E/CN.12/CCE/272-FAO/CAIS/62/1/Rev.1); *Informes de las reuniones de organismos de fomento y estabilización de precios de Centroamérica, convocadas por la Secretaría Permanente del Tratado General de Integración Económica Centroamericana* (CCE/VIII/DT.4); and *Proyecto de evaluación coordinada de recursos pesqueros y su comercialización para los países centroamericanos* (CCE/VIII/DT.6),

#### Decides

1. Take note with satisfaction of the reports and documents submitted to it and to approve those prepared by FAO and the ECLA secretariat;

2. To request the ECLA secretariat, in conformity with its programme of activities, to set up and call into session the Agricultural Development Sub-Committee for the purpose of giving impetus to the technical-level activities and the programmes of action of direct concern to the Committee, and to arrange for the participation of the Ministries of Agriculture and related agencies in the work of the Sub-Committee;

3. To request the ECLA secretariat to arrange for the publication by the United Nations, in a printed volume, of the principal studies on the Central American agricultural economy that have been prepared in connexion with the Economic Integration Programme;

4. To approve the Central American project on the co-ordinated evaluation of fisheries resources and their marketing presented by the Working Group set up for this purpose at the present eighth session, and to authorize the Chairman of the Committee to submit the project to the United Nations Special Fund and request the Fund to provide the necessary financing;

5. To recommend the Governments members of the General Treaty to ensure that State agencies concerned with agricultural development should co-operate as fully as possible with the Committee in this matter and should, in their activities take into account the resolutions relating to Central American economic integration.

#### 126 (CCE) ELECTRIC POWER

*Resolution adopted on 28 January 1963*  
(E/CN.12/CCE/295)

*The Central American Economic Co-operation Committee,*

#### Considering

(a) That the Electrification Sub-Committee, consisting of representatives of State agencies and of private

electricity enterprises, was established under resolution 59 (CCE) at the Committee's fifth session for the purpose of studying and making recommendations to the Committee concerning the possibilities of joint action in the field of electric power,

(b) That the Sub-Committee held its first session in November 1959 and agreed upon a programme of work which is directed chiefly at considering specific possibilities as regards the inter-connexion of power grids and the joint utilization of water resources; and that a United Nations Technical Assistance Mission has been set up and is now engaged in studies on specific short-term prospects,

(c) That the investigation and evaluation of the region's water resources with a view to their eventual use on a regional scale should be accelerated,

#### Decides

1. To take note with satisfaction of the report of the first session of the Central American Electrification Sub-Committee and to approve, with the amendments suggested by the Working Group, the programme of work drawn up by the Sub-Committee at that session;

2. To request the Sub-Committee to expedite the studies it is carrying out, in co-operation with the Technical Assistance Mission and the ECLA secretariat, on the inter-connexion of power grids and the joint development of the region's resources, and to hold a second session, at which it will consider the results of these studies, as soon as possible;

3. To request the Electrification Sub-Committee to investigate and evaluate the water resources indispensable for facilitating and expediting the inter-connexion of power grids, and to co-ordinate its activities in each case with those of the national agencies concerned with other aspects of water use;

4. To request the ECLA secretariat to co-ordinate the activities designed to obtain the resources required for the projects referred to in paragraph 3.

#### 127 (CCE) TRANSPORT

*Resolution adopted on 28 January 1963*  
(E/CN.12/CCE/296)

*The Central American Economic Co-operation Committee,*

#### Considering

(a) That a programme of work for the Transport Sub-Committee was laid down in resolution 92 (CCE) and that, in compliance with that resolution, the ECLA secretariat has presented a report on the Central American Road Plan and two reports on the modernization of legislation and on uniform maritime and harbour regulations, these reports having been prepared in co-operation with experts of the United Nations Bureau of Technical Assistance Operations,

(b) That there is need to promote the development of regional transport and the efficient operation of the various forms of transport on a scale appropriate to the Integration Programme,

### *Decides*

1. To take note with satisfaction of the work done by the secretariat in co-operation with the authorities of the respective countries and the regional agencies concerned with the integration programme;

2. To recommend the Governments to apply the provisions of the Central American Agreement on Road Traffic, signed in 1958 in the city of Tegucigalpa;

3. To instruct the Transport Sub-Committee to consider and make recommendations concerning the following topics at its next session: (a) the Central American Road Plan, with particular regard to the economic feasibility of the projects and to construction priorities, maintenance, financing and regional co-operation among the road authorities; (b) the action which might be taken by the authorities with respect to the modernization of harbour legislation and administration; (c) the operation and administration of transport services, and in particular the promotion of those that will be required for the purpose of the Common Market;

4. To instruct the Sub-Committee, in addition, to consider the problem of transport and communications in the less developed areas of Central America and to formulate possible solutions at the technical level;

5. To request the ECLA secretariat: (a) to bring up to date the basic report entitled *El transporte en el Istmo Centroamericano*, which was prepared in 1953; (b) to undertake an economic study of future transport requirements on the basis of projections of the economic development and the foreseeable transport capacity of the region;

6. To request the United Nations to provide the services of experts which are needed for the continuing effectiveness of the Committee's activities in the field of Central American transport.

### 128 (CCE) HOUSING

*Resolution adopted on 28 January 1963  
(E/CN.12/CCE/297)*

*The Central American Economic Co-operation Committee,*

#### *Considering*

(a) That during the month of August 1962 a meeting of experts of the Housing Sub-Committee was held for the purpose of studying the technical questions having a bearing on the introduction of modular co-ordination in Central America,

(b) That there is need to give effect to the resolutions based on the technical studies in the field of modular co-ordination, those aimed at fostering a more efficient use of Central American natural resources and construction materials, and those relating to labour productivity and the training of skilled workers,

(c) That the activities of the Housing Sub-Committee should be broadened to include the co-ordination of low-cost housing programmes in rural areas and a study of urban development problems,

### *Decides*

1. To take note with satisfaction of the report of the Working Group on Modular Co-ordination, which will be submitted to the Housing Sub-Committee at its next session;

2. To recommend the Governments of Central American countries which do not yet have housing institutes to establish them;

3. To recommend the national housing agencies to carry out, in co-operation with the United Nations Bureau of Technical Assistance Operations, a joint pilot programme for the construction of low-cost housing with a view to applying the basic principles of modular co-ordination, and to study possible ways of channelling domestic savings in the housing sector;

4. To recommend the housing agencies to promote, by means of a joint demonstration programme, the use of low-cost and highly efficient construction implements and equipment which have so far not been widely used in the region;

5. To request the ECLA secretariat to prepare studies that will serve as a basis for action to: (a) promote trade in construction materials of Central American origin; (b) promote a greater use of the area's natural resources for the manufacture of construction materials; (c) intensify and co-ordinate, on a regional basis, programmes for the construction of low-cost housing in the rural sector; (d) seek possible regional solutions for the problems and repercussions of housing programmes related to urban development;

6. To request the ECLA secretariat to co-ordinate the activities through which it is hoped to obtain the technical assistance resources needed to carry out the projects referred to in paragraphs 3 and 4.

### 129 (CCE) SOCIAL ASPECTS OF DEVELOPMENT

*Resolution adopted on 28 January 1963  
(E/CN.12/CCE/298)*

*The Central American Economic Co-operation Committee,*

#### *Considering*

(a) That in compliance with resolutions 73 (CCE) and 94 (CCE) the ECLA secretariat and experts assigned to the United Nations regional programme of technical assistance have, under the Integration Programme, been engaged in basic research on population, income distribution, land tenure and labour costs and productivity,

(b) That from the standpoint of the final objectives of economic integration, increasing importance is attached, within the Programme, to the social aspects of integrated development,

(c) That the study and formulation of these problems should be directed towards the adoption of those economic policy measures that will be most conducive to a satisfactory solution,

### *Decides*

1. To take note with satisfaction of the work being done under the Integration Programme with respect

to the social aspects of development and, more particularly, with reference to population, land-tenure and income-distribution problems, and to recommend that Governments should take this work into account in the formulation of a regional economic policy;

2. To state that the incorporation of the sparsely populated and less developed areas of Central America into the economic process of integrated regional growth is desirable;

3. To request the ECLA secretariat, in co-operation with United Nations technical assistance experts, to undertake research on the problems mentioned in paragraph 2 with a view to clarifying their nature and scope and formulating specific recommendations for their solution;

4. To request the ECLA secretariat and the United Nations Bureau of Technical Assistance Operations, in their studies on income distribution in Central America, to give particular attention to consumption and savings as the basis for an analysis of problems relating to fiscal reform in the Central American countries;

5. That in the studies referred to above the experience already acquired by the various national agencies should be drawn on, and the co-operation of the Central American University Council should be sought.

#### 130 (CCE) CENTRAL AMERICAN RESEARCH INSTITUTE FOR INDUSTRY

*Resolution adopted on 28 January 1963*  
(E/CN.12/CCE/299)

*The Central American Economic Co-operation Committee,*

##### *Considering*

(a) The report submitted by the Director of the Central American Research Institute for Industry on its activities,

(b) That the Executive Committee of the Institute is to meet shortly and will have before it a detailed account of the Institute's activities,

(c) That the Central American Governments intend to intensify their efforts to achieve rapid industrialization of the area and that the Institute is to play an important part in these efforts,

##### *Decides*

1. To take note with satisfaction of the report submitted to the Committee at this session by the Director of the Institute;

2. To request the United Nations to set up a commission to carry out a study of the Institute's present and future role in the accelerated effort to achieve the industrialization of the Central American countries on a regional basis in the near future and that, as a result of the study, appropriate suggestions or proposals should be made to the Executive Committee of the Institute for consideration at its next session;

3. To request the regional agencies concerned with the Integration Programme to advise the commission in matters relating to economic integration.

#### 131 (CCE) TECHNICAL ASSISTANCE

*Resolution adopted on 28 January 1963*  
(E/CN.12/CCE/300)

*The Central American Economic Co-operation Committee,*

*Considering* the report submitted by the Regional Representative of the United Nations Technical Assistance Board on the co-operation extended to the Central American Economic Integration Programme during the period 1961-62 (E/CN.12/CCE/277), in which the growth of the technical assistance programmes is reviewed,

##### *Decides*

1. To take note with satisfaction of the report of the Regional Representative of the Technical Assistance Board and to express appreciation for the co-operation extended by the Technical Assistance Board, the Bureau of Technical Assistance Operations, the Special Fund and the specialized agencies of the United Nations in accordance with the requests submitted to them by the Chairman of the Committee, which are ratified by the present resolution;

2. To authorize the Chairman of the Committee to transmit to the Technical Assistance Board the requests relating to 1963-64 which originate from the resolutions adopted at the present session.

#### 132 (CCE) TOURIST TRADE

*Resolution adopted on 28 January 1963*  
(E/CN.12/CCE/301)

*The Central American Economic Co-operation Committee,*

*Considering* that the Central American Economic Council, at its second special session, took decisions designed to promote the tourist trade in the region, and that means should be devised for joint action in this field,

##### *Decides*

1. To request the Permanent Secretariat of the General Treaty, in co-operation with OAS and in consultation with the ECLA secretariat, to study the possibilities in Central America for developing the tourist trade on a regional basis, and to submit the results of this study to the Committee at its next session;

2. To recommend the Governments of the countries which have no national tourist agencies to establish such agencies.

#### 133 (CCE) EXPRESSION OF GRATITUDE TO THE DIRECTOR OF THE MEXICO OFFICE OF THE ECONOMIC COMMISSION FOR LATIN AMERICA

*Resolution adopted on 29 January 1963*  
(E/CN.12/CCE/302)

*The Central American Economic Co-operation Committee,*

*Considering* the contribution made by Mr. Cristóbal Lara Beutell to the process by which the Common



Market and the various instruments on which it is based were brought into being,

*Bearing in mind* that Mr. Lara Beautell will shortly leave his post as Director of the Mexico Office of the Economic Commission for Latin America,

*Decides*

1. To express its gratitude to Mr. Cristóbal Lara

Beautell for the great work done by him on behalf of Central American economic integration, to thank him for his decisive contribution to the Committee's activities and to request him to continue, in his new post, to provide whatever assistance he can to the Central American Programme;

2. To transmit the text of this resolution to the United Nations.

## ANNEXES

- A. *Protocol to the Agreement on the Régime for Central American Integration Industries*
- B. *Protocol to the Central American Agreement on the Equalization of Import Duties and Charges*
- C. *General situation and future outlook of the Central American Integration Programme.* Note by the ECLA secretariat.

### Annex A

#### PROTOCOL TO THE AGREEMENT ON THE REGIME FOR CENTRAL AMERICAN INTEGRATION INDUSTRIES\*

*The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,*

*Having* as their main objective an improvement in the levels and conditions of living of the Central American peoples through the integration of their respective national economies,

*Convinced* that the establishment of Central American integration industries in their territories is important for the promotion of economic development, the rational use of resources and balanced growth among countries,

*Recognizing* the need to apply the Agreement on the Régime for Central American Integration Industries and to give effect to the provisions of article XVII of the General Treaty on Central American Economic Integration,

*Considering* that the granting of the benefits provided for in this and other additional protocols to the Agreement on the Régime should neither restrict nor limit the trade carried on under the free-trade arrangements in force previous to the signing of the said protocols, and that in so far as the plants referred to in this instrument are concerned, the granting of free-trade treatment to their products under the terms of article IV of the Agreement on the Régime does not restrict any trade carried on previously,

*Considering* the desirability of creating complementary systems to promote the establishment of industrial activities of particular interest for the economic development of the region,

*Have decided* to draw up the present Protocol, and for that purpose have appointed as their respective plenipotentiaries:

His Excellency the President of the Republic of Guatemala:  
Mr. Julio Prado García Salas, Minister for Central American Integration;

His Excellency the President of the Republic of El Salvador:  
Mr. Salvador Jáuregui, Minister for Economic Affairs;

His Excellency the President of the Republic of Honduras:  
Mr. Jorge Bueso Arias, Minister for Economic and Financial Affairs;

His Excellency the President of the Republic of Nicaragua:  
Mr. Gustavo A. Guerrero, Minister for Economic Affairs;

His Excellency the President of the Republic of Costa Rica:  
Mr. Rodolfo Trejos Donaldson, Director of Economic Affairs;

Who, having exchanged their full powers, found in good and due form, have agreed as follows:

#### Chapter I

##### GENERAL PROVISIONS

###### Article 1

The benefits of the Agreement on the Régime for Central American Integration Industries shall neither restrict nor limit the trade carried on under the General Treaty on Central American Economic Integration.

###### Article 2

The signatory States declare to be integration industries those industries coming under the provisions of this Protocol, and they admit to the benefits of the Agreement on the Régime for Central American Integration Industries the plants corresponding to the said industries which are specified in this Protocol.

###### Article 3

The products of the integration plants shall enjoy free trade as between the territories of the Contracting Parties from the date on which this Protocol enters into force.

The products of the plants which are set up within the same branch of industry subsequent to the date on which this Protocol is signed, but which are not admitted to the benefits of the Agreement on the Régime for Central American Integration Industries, shall enjoy successive tariff reductions amounting to an annual rate of 10 per cent of the uniform Central American tariffs established in this Protocol. These reductions shall come into force as from the date on which the relevant instrument is signed in the case of plants that are declared to be integration plants and were already established, and from the date on which production is to begin in the case of plants which are projected or under construction.

###### Article 4

The products of the integration plants shall meet the standards of quality laid down by the Central American Re-

\* *Note by the editor.* The text reproduced here does not include the specific data on price guarantees and tariff levels which are contained in the original document but are in the nature of reserved clauses.



search Institute for Industry (ICAITI) and adopted by the Executive Council.

The Institute shall periodically investigate whether these standards are being complied with and shall communicate the results of such investigation to the Permanent Secretariat. The Executive Council shall, by majority vote, determine the action to be taken in case of non-compliance, including authorization to effect imports subject to payment of the tariffs indicated in articles 15 and 23.

#### *Article 5*

The tariff régime provided for in this Protocol shall enter into force thirty days from the date on which the Permanent Secretariat notifies the member States in writing that the initial capacity of the integration plants is that indicated in the corresponding protocol and that their products meet the standards of quality referred to in the previous article.

#### *Article 6*

The integration plants shall be granted a ten-year exemption from duties and charges on imports of raw materials or intermediate products used by them; they shall also be exempted from taxes on the production or consumption of such materials or products, or, if necessary, the corresponding amount shall be refunded to them. Other tax benefits shall be governed by the Central American Agreement on Fiscal Incentives to Industrial Development.

#### *Article 7*

Enterprises owning integration plants shall not set themselves up as distributors of the products specifically covered by the Régime nor shall they sell through exclusive distributors; they shall not, without valid reason, fail to fill orders submitted to them by distributors.

#### *Article 8*

Where, at the request of any Contracting Party, the Executive Council finds that imports are effected at a price below the normal value or below the regular quotations on the international market, or by means of unfair trade practices which have or may have an adverse effect on integration plants, the Governments shall order the suspension of imports from exporters who have engaged in such practices, without prejudice to such other measures as may be agreed upon by the Executive Council in accordance with the provisions of chapter 3 of the San Juan Protocol on the Equalization of Import Duties and charges of 31 July 1962. Such suspension shall remain in effect for as long as is considered necessary.

#### *Article 9*

Foreign goods shall be considered to have been imported at a price below their normal value if the ex-factory price charged in the exporting country is less than:

(a) The comparable price, under normal trade conditions, of similar goods intended for consumption in the domestic market of the exporting country;

(b) The highest comparable price, under normal trade conditions, of similar goods intended for export to a third country; or

(c) The cost of production of such goods in the country of origin, plus a reasonable sum for sales expenses and profit.

#### *Article 10*

The Executive Council, acting through the Permanent Secretariat, shall ensure compliance with the provisions of this Protocol in so far as they relate to the rights and obligations of the integration plants, which shall, for this purpose, submit to the Permanent Secretariat a monthly report on the production and stocks of their products as well as such other supplementary data as may be requested.

## **Chapter II**

### **CAUSTIC SODA AND CHLORINATED INSECTICIDES INDUSTRY**

#### **I. APPLICATION**

##### *Article 11*

The Contracting States declare that the caustic soda and chlorinated insecticides industry is an integration industry, and they admit to the benefits of the Agreement on the Régime for Central American Integration Industries the plants producing caustic soda and chlorinated camphene insecticide to be established in the Republic of Nicaragua. The enterprises owning the integration plants shall be set up within twelve months from the date on which this Protocol enters into force. Construction of the plants shall begin not later than eighteen months and production not later than three and a half years, from the same date.

##### *Article 12*

The rights and obligations specified in this Protocol shall apply to the plants included in resolution 7 of the Executive Council in so far as caustic soda and chlorinated camphene insecticide are concerned.

#### **II. INVESTMENT AND COMPOSITION OF CAPITAL**

##### *Article 13*

The company or companies owning the integration plants shall invest the equivalent of approximately \$US4.5 million. Of the registered capital, at least 40 per cent shall be offered for sale to capital of Central American origin during a period of not less than 180 days before the date on which the said company or companies are set up.

#### **III. CAPACITY**

##### *Article 14*

The integration plants shall have a minimum annual production capacity of 4,700 metric tons of caustic soda and 2,700 metric tons of chlorinated camphene insecticide to meet the requirements of the signatory countries as provided for in this Protocol.

The establishment of additional plants needed to meet the demand of the Central American market shall be effected by decision of the Executive Council, taken by majority vote and in accordance with the procedure laid down in article XI of the Agreement on the Régime for Central American Integration Industries, the said plants to be subject to the same obligations as those imposed under this Protocol on the original plants with respect to the offer of capital, prices, quality and supply guarantees, and to enjoy the same general rights.

#### **IV. MARKET SUPPLY GUARANTEE**

##### *Article 15*

The enterprise or enterprises owning the plants shall be required to guarantee an adequate and steady supply of chlorinated camphene insecticide.

The Permanent Secretariat, at the request of any of the Contracting Parties, shall determine the cases in which this guarantee is not being complied with. It shall for this purpose take into account the registered inventory and such other factors as it considers relevant. In such cases, the Governments may authorize the import of the shortages determined by the Permanent Secretariat, subject to an import duty equivalent to \$US0.05 per gross kilogramme of chlorinated camphene insecticide.

##### *Article 16*

If the production or supply of chlorinated camphene insecticide is interrupted, the enterprise or enterprises shall forthwith inform the Permanent Secretariat of the Executive Council. In the event of such interruption, the Council shall

take whatever measures it considers necessary to ensure the markets of the member countries are adequately supplied. On the basis of a resolution adopted by the Council, the Governments may grant licences for the import of the aforementioned product from third countries, subject to payment of the import duty specified in the final paragraph of article 15. Such resolutions shall be adopted by majority vote.

V. PRICE GUARANTEE

Article 17

It shall be incumbent upon the enterprise or enterprises to supply the markets of the signatory countries at reasonable

and competitive prices, which shall not exceed one hundred and twenty dollars per metric ton of caustic soda or six hundred and fifteen dollars per metric ton of one hundred per cent technical chlorinated camphene.

It shall also be incumbent upon the enterprise or enterprises to sell the caustic soda at the same price ex-factory and the chlorinated insecticide at the same price at the various distribution points in each of the signatory countries.

The Executive Council, shall through its secretariat, ensure that the foregoing provisions are properly applied and shall authorize such price changes as appear necessary and advisable in the light of changes in production costs.

VI. TARIFF RÉGIME

Article 18

The Contracting States shall adopt the following classification and uniform import duties:

NAUCA item or sub-item and uniform tariff sub-sub-items	Description	Unit	Uniform import duty	
			Specific (dollars per unit)	Ad valorem (percentage c.i.f.)
511-03-00	Sodium hydroxide	G.K.		
512-09-01	Camphor (natural or synthetic) and its derivatives, n.e.s.			
512-09-01-01	Chlorinated camphene for the manufacture of insecticides	G.K.		
512-09-01-09	Others	G.K.		
512-09-03	Halogenated derivatives of hydrocarbons, n.e.s.			
512-09-03-01	Chloroform	G.K.		
512-09-03-02	Gases, refrigerant, liquid or not (freon gas, etc.)	G.K.		
512-09-03-03	Dichloro-diphenyl-trichloroethane (DDT) and other chlorinated chemical products for the manufacture of insecticides	G.K.		
512-09-03-04	Non-chlorinated chemical products for the manufacture of insecticides	G.K.		
512-09-03-09	Others	G.K.		
512-09-12	Amino-phenols, n.e.s.			
512-09-12-01	For the manufacture of insecticides	G.K.		
512-09-12-09	Others	G.K.		
599-02-00	Insecticides, fungicides and disinfectants, (including animal dressings) and similar products other than medicaments, fumigants, disinfectant soaps and deodorizers			
599-02-00-01	Chlorinated camphene derivatives of turpentine, prepared as insecticides	G.K.		
599-02-00-02	Chlorinated insecticides prepared for immediate consumption; mixtures and solutions, concentrated or not, containing some of the products mentioned in sub-sub-items 512-09-01-01, 512-09-03-03 and 599-02-00-01	G.K.		
599-02-00-03	Other insecticides, n.e.s.	G.K.		
599-02-00-09*	Others	G.K.		
Note in the Uniform Central American Import Tariff to item 599-02-00				
Any preparation not ready for immediate use as an insecticide is considered to be of technical grade.				

\* Included for the sole purpose of ensuring uniform application of the Uniform Central American Tariff Nomenclature (NAUCA).

Chapter III  
RUBBER TIRE AND TUBE INDUSTRY

I. APPLICATION  
Article 19

The Contracting States declare that the rubber tire and tube industry is an integration industry, and they admit to the benefits of the Agreement on the Régime for Central American Integration Industries the plant producing these items, established on the date of this Protocol in the Republic of Guatemala.

Article 20

The rights and obligations specified in this Protocol shall apply to the said plant with respect to the rubber tires and tubes for motor-cars and lorries manufactured by the plant. The Executive Council shall draw up a list of types and sizes of rubber tires and tubes which are to come under the provisions of this Protocol on the date of its entry into force. The said list may be supplemented by the Executive Council subject to verification of the additional types of rubber tires and tubes manufactured by the plant under conditions adequate for supplying the Central American market. Additions to the list may be made every six months and shall be published by the Executive Council for the purpose of the relevant customs classification. The initial list of rubber tires and tubes for motor-cars and lorries, which is referred to in this article, shall be published for the same purpose.

II. INVESTMENT AND COMPOSITION OF CAPITAL  
Article 21

The enterprise owning the integration plant has invested in it the equivalent of approximately \$US5 million. The registered capital of the enterprise, equivalent to \$US2.5 million, consists in its majority of capital of Central American origin. A similar proportion of any future increase in capital shall, by public announcement, be offered for sale, to capital of Central American origin during a period of not less than 180 days.

III. CAPACITY  
Article 22

The integration plant shall maintain an initial capacity of 145,000 rubber tires and 116,000 tubes, which shall be increased to 225,000 rubber tires and 180,000 tubes annually within a period of not more than one year from the date on which this Protocol enters into force.

IV. MARKET SUPPLY GUARANTEE  
Article 23

The plant shall be required to guarantee an adequate and steady supply of the types of rubber tires and tubes specified

in the list referred to in article 20 and shall maintain on the markets of the five member countries stocks equivalent to the average monthly consumption of these items during the previous year.

The Executive Council, at the request of any of the Contracting Parties, shall designate, by majority vote, the cases in which this guarantee is not being complied with. It shall for this purpose take into account the registered inventory and such other factors as it considers relevant. In case of non-compliance, the Governments, acting on the basis of resolutions of the Executive Council, also adopted by majority vote, may authorize import licences for the articles coming under this Protocol, which upon import shall be subject to payment of the uniform import duty agreed upon for the rubber tires and tubes included in tariff sub-sub-item 629-01-02-01. Such authorization shall be granted to the extent required to ensure an adequate supply for the market.

Article 24

If the production or supply of rubber tires and tubes is interrupted, the enterprise shall forthwith inform the Permanent Secretariat of the Executive Council. The Council shall take whatever measures it considers necessary to ensure that the markets of the member countries are adequately supplied. On the basis of a resolution adopted by the Council, the Governments may grant licences for the import of rubber tires and tubes from third countries, subject to payment of the uniform import duty agreed upon for tariff sub-sub-item 629-01-02-01. The resolutions to which this article refers shall be adopted by majority vote.

V. PRICE GUARANTEE  
Article 25

The enterprise undertakes to sell the articles coming under this Protocol at the same price, other conditions being equal, to all the distributors of the region; it also undertakes to ensure that the sales price to the final consumer shall in no case exceed the lowest list price in effect on 1 December 1962 in any of the contracting countries for articles comparable in quality to those manufactured by the plant.

The Executive Council shall in due course establish the sales price for the rubber tires and tubes manufactured by the plant, taking as the basis for its decision a report prepared by the Permanent Secretariat on the real prices in effect in the Central American countries for similar articles on the aforementioned date.

The Executive Council, through its secretariat, shall ensure that the foregoing provisions are properly applied and shall authorize such price changes as appear necessary and advisable in the light of changes in production costs.

VI. TARIFF RÉGIME  
Article 26

The Contracting States shall adopt the following classification and uniform import duties on rubber tires and tubes:

NAUCA item or sub-item and uniform tariff sub-sub-items	Description	Unit	Uniform import duty	
			Specific (dollars per unit)	Ad valorem (percentage c.i.f.)
629-01-02	Rubber tires, n.e.s., and tubes, for vehicles of all kinds	G.K.		
629-01-02-01	Rubber tires and tubes, n.e.s., of types and sizes not manufactured by the integration industry			
629-01-02-02	Rubber tires, n.e.s., for any use, weighing not more than twenty kg each, in the sizes manufactured by the integration industry and			

NAUCA item or sub-item and uniform tariff sub-sub-items	Description	Unit	Uniform import duty	
			Specific (dollars per unit)	Ad valorem (percentage c.i.f.)
	included in the list referred to in article 20 of the Protocol to the Agreement on the Régime for Central American Integration Industries, and tubes for same.	G.K.		
629-01-02-09	Rubber tires, n.e.s., for any use, weighing more than twenty kg each, in the sizes manufactured by the integration industry and included in the list referred to in article 20 of the Protocol to the Agreement on the Régime for Central American Integration Industries, and tubes for same	G.K.		

#### Article 27

The establishment of additional plants shall be effected by decision of the Executive Council, taken by majority vote and in accordance with the procedure laid down in article XI of the Agreement on the Régime for Central American Integration Industries; the said plants shall be subject to the same obligations as those imposed under this Protocol on the original plant with respect to prices, quality and supply guarantee, and shall enjoy the same general rights. At least 60 per cent of the capital of the new plants shall be offered, by public tender, to capital of Central American origin, and at least 30 per cent must be subscribed by Central American capital.

#### Chapter IV

#### SPECIAL PROVISIONS

#### Article 28

The Contracting States agree to set up a special system

for the promotion of productive activities in order in this way to encourage the establishment in Central America of new industries having particular significance for the economic development of the region.

#### Article 29

Trade in the items coming under article 31 of this Protocol shall be subject to the provisions of the General Treaty on Central American Economic Integration.

#### Article 30

Without prejudice to the uniform levels which have been or may be agreed upon in accordance with the Central American Agreement on the Equalization of Import Duties and Charges and its protocols, a tariff system shall be established and shall be applied with full regard for the conditions laid down in this chapter.

#### Article 31

For the purposes of the system referred to in the previous article, the following uniform tariffs are agreed upon:

NAUCA item or sub-item and uniform tariff sub-sub-items	Description	Unit	Uniform import duty	
			Specific (dollars per unit)	Ad valorem (percentage c.i.f.)
664-03-00	Sheet (window) glass, unworked, whether coloured or not	G.K.		
665-01-00	Glass containers (with or without covers of any material), except fancy (carboys, bottles, flacons, jars, pots, tubular containers and similar containers of glass), including covers and stoppers of common glass, and glass inners for vacuum flasks and other vacuum vessels			
665-01-00-02	Containers of any capacity, for beer, aerated water, wine and other alcoholic and non-alcoholic beverages	G.K.		
669-12-01	Hand tools, for artisans			
669-12-01-01	Machetes	G.K.		
721-03-01	Incandescent electric lighting bulbs and tubes, of all kinds and voltages, including sealed beam bulbs for vehicles			

NAUCA item or sub-item and uniform tariff sub-sub-items	Description	Unit	Uniform import duty	
			Specific (dollars per unit)	Ad valorem (percentage c.i.f.)
721-03-01-01	Electric lighting bulbs, of all kinds and voltages (except filament tubes and sealed beam bulbs for vehicles	G.K.		
721-03-01-09*	Others			

\* Included for the sole purpose of ensuring uniform application of the Uniform Central American Tariff Nomenclature (NAUCA).

#### Article 32

The tariffs provided for in the previous article shall become applicable from the time when production of the corresponding items in Central America begins, on condition that the actual installed capacity meets at least 50 per cent of the regional demand.

#### Article 33

The Permanent Secretariat, at the request of the country or countries concerned and with the co-operation of the Central American Research Institute for Industry (ICAITI), shall ascertain whether the conditions set out in the preceding article are met and shall give notice of its findings to the member Governments. The tariffs shall be applied thirty days after the date on which written notice as aforesaid has been given.

#### Article 34

Whenever the system established by virtue of the foregoing provisions is apt to give rise to speculative imports of foreign goods, the Executive Council, at the request of any of the Contracting Parties, may decide whether the countries should impose restrictions or quotas on the import of such goods at any time before the production thereof is to begin in Central America.

The Governments shall act in conformity with the resolutions adopted by the Council.

#### Article 35

The addition of new items to the schedule of goods in article 31 shall be subject to the signing of additional protocols to be negotiated in the Executive Council.

#### Article 36

Industrial activities benefiting from the special system set up by virtue of this chapter for the promotion of productive activities may not be admitted to the benefits of the Agreement on the Régime for Central American Integration Industries, nor may the industrial activities admitted to the benefits of the said Agreement be allowed to benefit from the said special system.

#### Article 37

The Executive Council shall keep a close check on the prices of the goods coming under the special system. If it finds that these prices are excessively high in relation to the normal market prices of similar goods, it may, on the basis of a study to be carried out for this purpose by the Permanent Secretariat in co-operation with the Central American Research Institute for Industry (ICAITI), grant authorization for imports to be subject to the payment of the uniform tariffs agreed upon in the Central American Agreement on the Equalization of Import Duties and Charges and its protocols or, in the absence thereof, of the national tariffs in effect on the date on which the present Protocol is signed.

The Council may authorize imports in the amounts required to meet such shortage as, on the basis of a study carried out

for this purpose by the Permanent Secretariat, the Council shall itself have determined, such imports to be subject to payment of the tariffs referred to in the preceding paragraph.

### Chapter V

#### FINAL PROVISIONS

##### Article 38

This Protocol shall be submitted for ratification in each State in conformity with its respective constitutional or legislative procedures.

The instruments of ratification shall be deposited with the Secretariat of the Organization of Central American States. The Protocol shall enter into force, in the case of the first three States to ratify it, eight days after the date of deposit of the third instrument of ratification, and, in the case of the States which ratify it subsequently, on the date of deposit of the relevant instrument.

##### Article 39

The duration of the present Protocol shall be contingent upon that of the General Treaty on Central American Economic Integration.

##### Article 40

The Organization of Central American States shall act as depository of this Protocol and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States and to the Permanent Secretariat of the General Treaty on Central American Economic Integration; it shall also notify them forthwith of the deposit of each instrument of ratification. Upon the entry into force of the Protocol, it shall also transmit a certified copy thereof to the Secretariat of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed the present Protocol in the city of San Salvador, Republic of El Salvador on 29 January 1963.

For the Government of Guatemala:

Julio PRADO GARCÍA SALAS,  
*Minister for Central American Integration*

For the Government of El Salvador:

Salvador JAUREGUI,  
*Minister for Economic Affairs*

For the Government of Honduras:

Jorge BUESO ARIAS,  
*Minister for Economic and Financial Affairs*

For the Government of Nicaragua:

Gustavo A. GUERRERO,  
*Minister for Economic Affairs*

For the Government of Costa Rica:

Rodolfo TREJOS DONALDSON,  
*Director of Economic Affairs*

## Annex B

### PROTOCOL TO THE CENTRAL AMERICAN AGREEMENT ON THE EQUALIZATION OF IMPORT DUTIES AND CHARGES

*The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica,*

*Acting on the basis of the provisions of article XII of the Central American Agreement on the Equalization of Import Duties and Charges and in conformity with the procedure laid down therein for the renegotiation of uniform duties and charges and the standardized tariff classification,*

*Have decided to draw up the present Protocol to that Agreement, and for that purpose have appointed as their respective plenipotentiaries:*

His Excellency the President of the Republic of Guatemala:  
Mr. Julio Prado García Salas, Minister for Central American Integration;

His Excellency the President of the Republic of El Salvador:  
Mr. Salvador Jáuregui, Minister for Economic Affairs;

His Excellency the President of the Republic of Honduras:  
Mr. Jorge Bueso Arias, Minister for Economic and Financial Affairs;

His Excellency the President of the Republic of Nicaragua:  
Mr. Gustavo A. Guerrero, Minister for Economic Affairs;

His Excellency the President of the Republic of Costa Rica:  
Mr. Rodolfo Trejos Donaldson, Director of Economic Affairs,

Who, having exchanged their full powers, found in good and due form, have agreed as follows:

#### Article I

The Contracting Parties agree to modify, by means of the present Protocol, the uniform duties and charges and the tariff classification provided for in the Central American Agreement on the Equalization of Import Duties and Charges and its protocols, with respect to the items and in the manner specified in schedules A and B, which form an integral part of this instrument.

#### Article II

This Protocol shall be submitted for ratification in each State in conformity with its respective constitutional or legislative procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American

States. The Protocol shall enter into force, in the case of the first three States to ratify it, eight days after the date of deposit of the third instrument of ratification, and, in the case of the States which ratify it subsequently, on the date of deposit of the relevant instrument.

#### Article III

The General Secretariat of the Organization of Central American States shall act as depository of this Protocol and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States and to the Permanent Secretariat of the General Treaty on Central American Economic Integration; it shall also notify them of the deposit of each instrument of ratification. Upon the entry into force of the Protocol, it shall also transmit a certified copy thereof to the Secretariat of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

#### Article IV

The duration of the present Protocol shall be contingent upon that of the Central American Agreement on the Equalization of Import Duties and Charges

IN WITNESS WHEREOF, the respective plenipotentiaries have signed the present Protocol in the city of San Salvador, Republic of El Salvador, on 29 January 1963.

For the Government of Guatemala:  
Julio PRADO GARCÍA SALAS,  
*Minister for Central American Integration*

For the Government of El Salvador:  
Salvador JÁUREGUI,  
*Minister for Economic Affairs*

For the Government of Honduras:  
Jorge BUESO ARIAS,  
*Minister for Economic and Financial Affairs*

For the Government of Nicaragua:  
Gustavo A. GUERRERO,  
*Minister for Economic Affairs*

For the Government of Costa Rica:  
Rodolfo TREJOS DONALDSON,  
*Director of Economic Affairs*

NOTE: Schedules A and B of this Protocol are for limited distribution only.

## Annex C

### GENERAL SITUATION AND FUTURE OUTLOOK OF THE CENTRAL AMERICAN INTEGRATION PROGRAMME\*

#### I. GENERAL REVIEW OF THE PROGRAMME

##### 1. INTEGRATION AND THE ECONOMIC SITUATION IN CENTRAL AMERICA

In August 1952 the Central American Governments established the Economic Co-operation Committee, which at its first session laid down the principles governing the integration programme. The ECLA secretariat believes that the time has now come, ten years later, to review briefly the results which have been achieved slowly over the intervening period. This review is made for the purpose of providing the Committee with a basis for determining which are the major problems and for formulating the measures needed to consolidate and extend the integration achieved thus far.

The recent accession of the Republic of Costa Rica to the

General Treaty and to the other instruments on economic integration means that the coverage of this Treaty is now complete. The participation of Costa Rica, in addition to fulfilling the hopes of all the Central American Governments, also satisfies one of the requirements of integration, namely, to provide an economic market basis sufficient to permit an industrial development that thus far has been lacking or has been barely perceptible in Central America. The common market has at its disposal instruments for action that are

\* This report was submitted as document E/CN.12/CCE/265 by the secretariat of ECLA to the eighth session of the Central American Economic Co-operation Committee held in San Salvador, El Salvador, in January 1963.

highly effective for the purpose not only of accelerating the real integration of the Central American economies, but also of offsetting some of the factors that in recent years have acted unfavourably on the economic situation.

Free trade has opened one new channel for the expansion of productive activity. In addition there is a common tariff built up on the basis of the true situation in the Central American countries, and with a view to development. There are also Central American institutions in the fields of finance, industrial technology, and even teaching and administrative training. The Economic Council, the Executive Council and the Permanent Secretariat of the General Treaty constitute a solid background for the efficient functioning of the common market and the progress of integration. In addition to these elements, which have grown up as a result of economic integration and form part of that integration, there are such favourable factors as the decision of the Central American Governments to undertake the planning of development in their countries in a co-ordinated form and on a regional basis, and the prospect of the immediate initiation of a new stage of intensified public investment and the existence of sources of external financing additional to those that have been available hitherto.

All these three factors constitute effective instruments of economic action, but for an accurate appraisal of their possible effect on the Central American economies they cannot be considered separately. Economic integration, development programming and public investment and its financing, must all be viewed as part of a single mechanism designed to accelerate the region's growth. As with any development effort, this calls for the combined and simultaneous action of all components so as to reap the rewards of this effort, on the basis of common fundamental aims and co-ordinated methods of application.

Side by side with these encouraging features there exist in Central America unfavourable economic conditions that have tended to worsen during the last few years. In other words, it is clear that economic integration has reached a high point in terms of results and prospects, but that the economy as a whole is going through a period of waning activity. The product growth rate is barely enough to offset the population increase, and in some cases is at the moment lower than the population growth rate.

All the foregoing suggests the possibility of bringing into play the instruments already available to the Central American Governments for invigorating the economy by offsetting the effects of the deterioration in the external sector. This cannot be done completely, since the structural features that determine the present situation are firmly built in the various countries, and could not be changed in the short run. The general objectives of integration can really be attained only gradually, although the rate at which the process is achieved should be modified by the use of the existing political instruments.

Recent experience shows that trade within the Central American countries is relatively independent of the factors that tend to depress economic activity in general. In the last five years, when the product grew at an annual rate of only 4 per cent, exports within the region increased at an annual average rate of 20 per cent; their value rose from 8.6 million dollars in 1950 to 32.7 million in 1960, making possible a level of economic activity that could not otherwise have been attained.

## 2. THE COMMON MARKET AS A STARTING POINT

The stage of making treaties, and of designing the framework within which the integration of the Central American economies must take place, may be considered virtually completed. Full free trade has been decided on for most products, and for the remainder it has been laid down what are to

be the characteristics, time-limits and rates of liberalization to be applied. Thus the common market operates in an automatic way which obviates the need for negotiations or any additional agreements of a general nature. Not only has economic integration been completed from the geographical and institutional standpoint, but it has already attained the operative stage. Yet these results constitute a new starting point rather than the completion of a task.

Since the General Treaty is only of recent application, the effects of the common market have been to enable the five national economic systems to operate more efficiently, rather than to lead to any form of consolidation of these systems. Only a limited improvement can be achieved on the basis of national economies that resort to the common market as a source of possible additional export opportunities. The improvement needed is of a general nature involving a transformation of the existing economic systems, and it cannot be fully achieved if the national forms of production become firmly enconced. Economic integration, as conceived by the Governments, is not a means for improving five national systems at a low level of development, or a marginal opportunity to enable those systems, while preserving the same features, to mitigate some of the anti-economic features inherent in their structure. The very essence of integration is the fusion of these national economies, on a progressive basis, into what in practice would amount to an economic system of regional scope.

The existence of wide disparities as regards basic capital resources and the fund of technical knowledge and savings available is one of the main obstacles to the gradual formation of a regional economic system. What has kept these Central American economies separate in the past is not merely a question of tariff barriers, but is also rooted in the differences between countries as regards, for example, roads and electric power plants, and the lack of links between these facilities at the regional level. Only when such differences have been abolished will the new investment deriving from the common market tend to concentrate in the places are the most economic from the Central America standpoint. At the same time, the existence of basic facilities that are equally satisfactory throughout the region, and that are linked together, will tend to encourage investments calculated to take advantage of the external economies established within the system.

Until such time as this levelling-up of economic conditions takes place, the investment coefficient will not fully reflect the opportunities and prospects opened up by the Central American common market. Consequently deliberate action is required with a view to stimulating the development of the various activities in the light of the outlook for the region as a whole. In order to achieve this the Central American Governments have decided to undertake the development of their countries by means of co-ordinated programming of economic activity. This implies, in addition to a full programming of public investment, a less extensive planning effort that is nevertheless sufficient to encourage private investment on a regional scale.

The actual integration of economic systems poses its own problems, which do not arise at the level of an individual country. Integration aims exist side by side with national aims. In the next stage of the programme common ground will increasingly be established between these two types of aims, especially in the major economic sectors, and progressively greater effort will be made to ensure that the various national economic bodies carry out their activities in the light of the additional prospects opened upon by the common market. For this purpose what is required is not a change in the actual aims of these bodies, but a change in their scope of activity. The work of integration should cease to be a task reserved to the regional bodies, and should be shared by the institutions concerned with banking, finance, credit, and agricultural and industrial development, that are operating in each country.

The importance of this evolution, of which the first signs are already to be seen in Central America, nevertheless goes beyond its significance from the short-term economic standpoint. The operative stage that the programme has now reached is, by its very nature, the testing stage for economic integration. Regional action by the national bodies will serve to consolidate and extend the basis of common interest on which the whole integration programme rests through the benefits to be derived by the various member countries. This is hardly a mere matter of arithmetically equal benefits; in the long term the basis of common interest will depend more on how far economic integration can accelerate growth than on any other kind of adjustment. Thus reciprocity will in essence not be a matter of compensations or adjustments, but will take the more permanent form of intensified economic growth in all the member countries.

### 3. THE NEW STAGE OF INDUSTRIAL DEVELOPMENT

In conjunction with the common market there have also been established, on a permanent basis, strong stimuli to industrial investment, whose effects are already being felt. What remains to be done is to ensure the economic soundness of the new investment, and its appropriateness from the standpoint of an over-all economic unit.

For the very reason that the stimuli provided by the common market are so powerful, it is more than ever imperative to avoid duplication of investment. At the national level such duplication exists in almost all branches of manufacturing, despite the small size of the markets concerned. When these markets are expanded at the regional level, in conjunction with an external tariff that is generally based on development criteria, the opportunity of profitable operation is even greater, despite failure to use installed capacity to the full. Thus anti-economic forms of industrial growth might be carried over from the national to the regional level, with harmful consequences in the way of waste of resources and virtual absence of any active competition.

The stimuli implicit in the regional scope of the market are essential because they can give rise to intensive activity by private industry leading to changes in economic structure and to specialization. But these incentives could also tend to consolidate existing conditions of inefficiency or to lead to increases in profit levels without any basic improvement in forms of production.

The spirit of enterprise, which is still inadequate but is making itself felt increasingly, may prevent this. Nevertheless, such an important matter should not be subject to any form of uncertainty as to timing or as to the form which this new outlook on the structure and functioning of industry is to take. The agencies of integration can back up the tendency that already exists in the private sector by acting as a spring-board for investment on a larger scale and for the renewal and improvement of existing plant. For this purpose the programme has the Central American Research Institute for Industry (ICAITI) and the Central American Bank for Economic Integration to fall back on. Purposive action by these two agencies is only a partial solution to the problem in question, but it is a type of measure that can help to facilitate a changeover in private industrial activity to more economical forms of operation, and that can cause the common market to open the way to expanded and more efficient production.

This function of the financial and technological agencies of the programme cannot be effective if they do not act in close accord. The financial agency cannot fulfill this function if a local or national mentality has been uppermost in the formulation and technical study of the projects submitted to it, and the technological body cannot effectively promote the formulation of economic projects on a regional scale unless there is some likelihood that this type of project will have preference in Central American financing.

The approach indicated seems all the more essential because analysis of regional trade shows that in addition to the considerable stimulus provided by free trade, there must be encouragement of changes in the industrial structure. Thus far there has been a better use of installed capacity, and the new investment in manufacturing has been designed in part for markets wider than the national markets. But generally speaking these first results of the common market might well be reinforced so that, instead of being confined to the products already produced in the region, they would also include new production sectors, especially durable consumer goods, intermediate goods and certain capital goods. Thus the first repercussions of the common market would have a broader base, whereas in regard to the goods produced at present they will tend to lose ground as Central American trade adjusts to the new conditions.

Furthermore, the forces in a market that is suddenly enlarged, as in Central America, encourage a form of import substitution mainly directed towards the items that raise fewer technical problems, and thus promote the development of consumer goods industries and processes involving little working and manufacturing. Consequently industries producing raw materials, and intermediate and capital goods, which are the industries with a real basis for future expansion, tend to be relegated to second place in the investment field. This would restrict the field of specialization and leave out of account one of the main objectives of the programme, namely, the attainment of an industrial structure that is fully integrated and capable of providing the impetus needed for moving ahead to new stages of economic development.

### 4. EXPANSION OF THE MARKET

While the integration programme can of itself promote a radical change in the level of economic activity, it does not yet include elements that would be equally effective in leading to a general improvement in income levels and standards of living.

The expansion of the market already effected is almost entirely due to the total of the separate demands in the five markets. In addition integration has also resulted in an increase in the general purchasing power in all these markets. Here the question is no longer one of raising the productivity of the system, which is regarded as already improved, but of ensuring that a fair share of the economic benefits obtained from integration shall be transferred to the consumer sectors. In other words, it is a matter of relative prices and incomes. The Committee believes that this effect must be an integral part of the programme's complex of repercussions, since in the absence of this broadening action the stimuli provided by the common market would gradually tend to lose their strength.

Indeed, the present distribution of income in the Central American countries constitutes what is perhaps one of the main obstacles to rapid industrialization of their economies, and to real integration. Being concentrated in certain sectors, and otherwise spread thinly as a result of the low income situation, the market available for manufactured goods is small and does not tend to grow with the same vigour as the economic system in general. The situation thus amounts to the existence of a sector with an income so high that any increases are spent on foreign goods instead of on goods manufactured in the region, while the remaining sector, consisting of the population as a whole, has so little income that its demand does not constitute an active factor, and is concentrated mainly on essential consumer goods. Thus in addition to the economic progress made possible by integration, there must be a structural change in income distribution so as to provide properly staggered points of support for economic growth.

The improvement of income distribution in a region such as Central America, which is mainly agricultural, necessarily



involves basic changes in the conditions in which the agricultural sector operates. These conditions include not only those that directly affect efficiency, and thus output, but also those that determine the pattern of the distribution of agricultural income among the various factors of production, above all forms of land tenure. These forms are rooted in the Central American economic systems, and make themselves felt in all activities, from exports to production for domestic consumption. The change or progressive adjustment of these forms in relation to a more dynamic economy of wider scope, like that provided by the common market, is calculated to provide both a link between the two major sectors that are directly productive—agriculture and industry—and a foundation for their simultaneous development. It should be noted that a problem of interrelations arises here, since the forms of tenure constitute at the same time both the causes and the results of a given stage of development.

Fiscal policy, and public investment policy in the social field, are other factors that may eventually contribute to a more economic pattern of income distribution. The Economic Co-operation Committee has been studying this problem since 1958. At the request of the Governments a United Nations mission has carried out a preliminary study, in collaboration with the Central American universities, of forms of land tenure and their significance for the economy of the region. The results of this study are not yet complete, but they already throw light on some aspects of the problem. Similarly, a detailed study of income distribution in Central America is being undertaken, and a survey is now under way of wages, costs and labour productivity, mainly in relation to manufacturing. Since 1957 the Committee's activity in the housing field has been carried out by the sub-committee established exclusively for this purpose, and its activity has increased during the past year. The composition of the labour force and demographic phenomena have been studied by technical assistance experts. Some of the results obtained are included in *Human resources of Central America, Panama and Mexico in 1950-1980, in relation to some aspects of economic development*,<sup>a</sup> of which the Committee took cognizance in 1959. In accordance with the guidelines laid down by the Committee, the ECLA secretariat proposes to intensify its studies in this field, with the collaboration of the Central American universities and of the technical assistance agencies of the United Nations.

Lastly, tax reform is another method of dealing with the immediate problems of income distribution. In the existing circumstances in Central America the tax problem includes more than the question of distribution. Nor can the achievement of tax equalization between the various countries, as an integration requirement, be regarded as the most immediate goal. In this field the Central American Governments have already established full equality as regards import duties, and recently, in August 1962, they signed a Central American Agreement on Tax Incentives to Industrial Development, which eliminates the great differences that existed formerly between the five countries with respect both to the actual amount of the exemptions and to the criteria governing their application. Nevertheless there is still room for further progress towards standardization of taxes.

But the aim of tax reform, from the standpoint of the needs of economic integration, must above all be to effect structural and administrative improvements in the tax systems so as to increase their capacity to meet the new public responsibilities deriving from economic integration proper, and con-

sequently from the policy of accelerated development of the five countries.

In 1957 the Economic Co-operation Committee adopted a resolution on this question, relating mainly to differences in taxation directly reflected as differences in the conditions of investment. On the basis of this resolution and of that adopted by the Committee at its fourth special session, what is now called for is a global approach to the problem would include not only progressive elimination of such differences, but also actual improvement of the tax systems and their adjustment to internal and external changes in the economy, as well as the use of taxation as an instrument for a sound distribution of income.

##### 5. CENTRAL AMERICAN ECONOMIC UNITY AND ITS LINKS WITH OTHER COUNTRIES

The plan for the progressive improvement of the machinery and methods of integration includes the establishment of a customs union between the five countries. Most of the components of this form of economic grouping already exist in Central America, or will exist very shortly by virtue of the General Treaty. Free trade and tariff equalization will be fully fledged within the next three years, and consequently a customs union in the case of Central America must set out to achieve more than can be achieved by the former two methods. It might even go further than the removal of customs barriers and the relevant administrative aspects. The progress made towards the common market will tend to liberate forces that must increasingly lead, not merely to a customs union, but, in the longer run, to the economic union of the member countries. This union will have been fully achieved when, in addition to the features that already exist, there is a common basic economic structure with respect to roads, harbour facilities and energy, and when mobility of the factors to production has been achieved which—as the best channel for disseminating the benefits of integration and establishing a permanent basis of solidarity between the five countries.

The economic integration of Central America is already a recognized fact. It is often seen as a point of reference in analysing parallel regional problems, and it is an important factor in the ambition of Latin America to set up a common market. The strengthening of the Central American market as a unit will tend in future to underline economic relations with other countries and the flow of investment. The form and manner of such relations might be the subject of study by the Committee and decisions by the Central American Governments, with a view to helping to determine that form. Just as in recent years there has been established what amounts to an inter-Central American trade policy, it would be possible to work towards the adoption of a foreign trade policy and to increasingly close links with third countries or groups of countries. The Economic Co-operation Committee and the Economic Council of the General Treaty have given consideration to these possible links, and have asked for the necessary studies to be made so that decisions on the question can be taken.

The policy referred to above could be based on the fact that the joint Central American market is not large enough to support certain industrial activities, and on the additional fact that Central America, as is widely known, suffers from a lack of savings and of technical know-how. Thus in the first place the Central American market could be supplemented by that of other countries for the products of certain industrial branches, while at the same time the ground would be prepared for agreements on investment and transfer of technologies that seem appropriate for the new industrial build-up in Central America.

<sup>a</sup> ST/TAO/K/LAT/1; E/CN.12/548. United Nations publication, Sales No.: 60.XIII.1

## II. THE INTEGRATION SECTORS

### 1. FREE TRADE

#### (a) *The evolution of trade*

Integration has advanced on a number of fronts, but its most immediate results are to be found in the field of trade between the Central American countries. During the fifties this trade increased almost fourfold, rising from a total value of 8.6 million dollars in 1950 to 32.7 million in 1960. This increase continued throughout the decade, but there were two distinct periods, one from 1950 to 1955 when growth was slower, at an annual cumulative rate of 8.7 per cent, and the other from 1955 to 1960 when growth accelerated sharply and attained an average annual cumulative rate of 20 per cent.

Together with this dynamic growth rate, the outstanding feature of the practical operation of economic integration during the decade was the independence from the behaviour of the rest of the economic system, particularly the external sector, achieved by the countries of the region in respect of trade among themselves. In fact the accelerated growth rate recorded during the second half of the decade coincided with the crisis in external sector prices, and with a trend towards a standstill in economic development and in exports to the rest of the world. Thus inter-Central American trade, which in 1950 represented less than 3 per cent of all foreign trade, increased by 1960 to a proportion of over 7 per cent.<sup>b</sup> However, this relative independence is of a somewhat temporary nature, being largely due to the still embryo stage of industrial development and multilateral free trade.

Between 1950 and 1955 one of the main aims of trade treaties between the Central American countries was to facilitate trade in surpluses of domestic products, especially for items of agricultural origin. In 1955-60 the scope of such treaties was enlarged to include a growing number of manufacturing products. This led to a marked trend towards a change in the composition of regional trade in the form of an increase in the proportion of industrial goods. The mere existence of the economic integration programme, and of the first multilateral treaties, created market expectations in the industrial sector that strengthened the trend towards the export of manufactured goods.

Thus qualitative and structural changes were introduced that made an increase possible in the flow of goods between the five countries. Exports of manufactured goods increased at an annual rate of only 5.2 per cent in 1950-55, whereas in 1955-60 the rate rose to 22.5 per cent. The annual growth rate for non-manufactured goods was the same during both these periods, about 15 per cent.

However, inter-Central American trade still has little effect on industrial productions, of which it represents only 6 per cent. Moreover of the increases in manufacturing, whose value rose to 70 million dollars for the decade, only 20 per cent represented exports to other countries in the region. Thus the main stimulus to industrial growth was the substitution of imports from the rest of the world, rather than inter-Central American trade.

The new trade openings led mainly to a better use of idle industrial production capacity, and only to a smaller extent to new investment in this sector. This partly explains how regional trade could continue to increase at a time of crisis in the external sector and a tendency towards stagnation in the economy as a whole.

Recently there have been signs of a trend towards a slower rate of expansion of inter-Central American trade. Thus in

1960 the increase recorded was somewhat lower (17 per cent) than the average annual rate for 1955-60. This trend continued in 1961, when total regional trade increased by 14 per cent, and according to the figures for the first half of 1962, appears to have continued in 1962.

This apparent reduction in the growth rate of exports was recorded before the Central American market could feel the effects of the full participation of Nicaragua, beginning in 1961, and of the more recent accession of Costa Rica to the common market. These developments will make for a broader geographical distribution of inter-Central American trade in future (as is well known, it has been concentrated in the past in El Salvador, Honduras and Guatemala), for a considerable increase in the volume of regional trade.

However, the stimulus that will be provided by the functioning of the General Treaty at the Central American level will be offset by a number of unfavourable factors in the demand sphere. Firstly, much of the idle industrial production capacity is already being used. Secondly, the possibilities of substituting imports of articles produced by the traditional industrial branches of the Central American economies have largely been exhausted. The proportion of imports in the total consumption of such articles is low, in general not more than 20 per cent. Even in those industries where the margin of import substitution is broader (as in the textile industry) increased trade and import substitution as the Economic Co-operation Committee has already pointed out, involves programmes of specialization in these activities, and the investment needed to modernize equipment and expand plant. The starting point for maintaining the dynamic growth of inter-Central American trade, and making use of the opportunities opened up by the establishment of the common market, must therefore be the introduction of new activities different from traditional lines, and the general strengthening of production capacity.

A change in this direction was noted during the previous decade. Exports of manufactured goods representing new industrial branches increased from 15,000 dollars in 1950 to about 2 million dollars in 1960, and the proportion of total grade they represent increased from 7 per cent to over 30 per cent.

#### (b) *Improvement of the free-trade system*

As already indicated, the measures of the type already felt to be necessary in order to facilitate a freer flow of goods are quite distinct from the formal establishment of free trade. They are a matter of taking steps to adjust certain economic activities to the new competitive conditions of the common market and to the requirements of Central American demand in relation not only to the volume of supply but also to matters of quality and timing of supply. The first question that arises relates to the conditions laid down in the interim régimes to enable certain products to be incorporated into the free trade régime. In the case of these products, which are expressly indicated in the General Treaty, the transition to free trade depends on the signing of multilateral agreements to regulate and co-ordinate national production and supply policies, and on the equalization of the tariffs on the items in question or on the raw materials used in their manufacture. This category includes, for example, agricultural commodities for the domestic market, and some manufactured goods, including petroleum products and textile goods.

A smaller number of items have remained subject to trade restrictions for an indefinite period, and differ from the other products covered by the interim régimes, in that it is not envisaged that they will eventually be incorporated in the free-trade régime. However, this is not a problem relating to the improvement of the common market, but merely a problem affecting the future customs union.

<sup>b</sup> In 1960 the percentages of the total exports of each country represented by inter-Central American exports were Honduras 12.0; El Salvador 10.8; Nicaragua 6.2; Guatemala 6.1; and Costa Rica 2.3.

The second type of measure to stimulate trade is the formation of a Central American system of transport and distribution of goods that will be capable of meeting the new requirements. In general the demand for transport services has increased rapidly, whereas the supply necessarily increases at a slower rate. This raises not only the problem of the long-term expansion of basic facilities, but also the more immediate problem of the better organization of existing equipment and installations.

This is a field where the public authorities, and those private sectors that participate in trade movements, can promote or facilitate the establishment of permanent distribution machinery and at the same time tackle the problem of financing regional trade, especially in the short run.

At its fifth session the Economic Co-operation Committee considered several of the aspects referred to, and in resolution 67 (CCE) decided to request the technical assistance agencies of the programme to undertake the necessary studies so that at the appropriate time, conditions could be established in Central America that would be favourable to the development of regular transport services between the various countries. This question is discussed in the relevant section of the present study.<sup>9</sup> As experience in the field of exports between the Central American countries is acquired, more will be learnt about other things that need to be done in Central America to facilitate regional trade and cut down the time and formalities required for trade operations.

The existence in the various Central American countries of special rules and regulations in health and other fields, the lack of uniform and specific criteria governing the origin of goods, and the customs regulations and formalities themselves, all tend to slow down the flow of goods and occasionally result in interruptions to trade. The General Treaty provides for regulations on the origin of goods to clarify the application of article V. This and other supplementary instruments or provisions on economic integration, in such fields as health, quality standards and regional traffic, will be more urgently needed as the common market comes more fully into force, and will be essential for the future institution of a customs union among the five countries.

(c) *Relation between the establishment of a customs union and the existing integration treaties*

In article I of the General Treaty the Contracting States agree to create a customs union in respect of their territories. From the standpoint of the internationally recognized exceptions to the application of the most-favoured-nation clause, the customs union has been defined as an agreement between States whereby there is freedom of movement of goods originating within the territory, a common tariff applying to the rest of the world, and a unified trade policy between the countries concerned and in respect of third countries.

The features referred to are already included in the Central American common market. Consequently the establishment of the customs union provided for in the General Treaty would consist, for Central America, in the adoption of additional measures; these would comprise mainly the creation of a common customs territory and the abolition of customs frontiers between the countries, the elimination of the requirements with respect to Central American origin for goods subject to a free trade régime, and lastly, the establishment of a central customs administration and the redistribution of tariff revenue among the member countries.

Several of the steps referred to relate to some of the provisions included in the integration treaties already in force. Thus, under the General Treaty, free trade is restricted, during the interim period, for all the products listed in annex A to the Treaty. Once this period comes to an end the products will be automatically incorporated into the free-trade régime,

except for specific goods in respect of which the Governments have agreed to restrictions for an indefinite period. For such goods the same tariff treatment will apply as that to which similar goods originating in the rest of the world are subject. The possible adoption of a customs union between the member countries would mean that the existing restrictions would have to be eliminated for as many products as possible, by means of additional agreements. With respect to those goods that for reasons of economic policy must remain subject to trade restrictions, formulas will have to be sought whose application will not involve the maintenance of frontier customs to enforce the restrictions in question. A similar situation arises as regards the products of any industries that are included in the special régime of industrial integration, since such products are subject to special forms of trade.

It should be noted, also in connexion with the relations between a possible customs union and other integration instruments, that the agreement on uniform tax incentives includes an undertaking to establish a special protocol on assembled products governing both the conditions for according exemptions and the trade régime to be applied to such products by the Central American countries. If this régime is different from the general free-trade system, this will constitute an additional question to be resolved before establishing the customs union.

This same agreement establishes national customs exemptions for imports of raw materials, semi-finished goods and capital goods for certain types of industry. The customs union will involve the application on a Central American basis of the customs exemptions granted at the national level, so that the raw materials and semi-finished goods whose imports are exempted from the payment of duty for one country can be brought in free of duty through any Central American customs frontier.

Similarly, there will have to be some study of the fiscal effects on the region as a whole, within the common system of collection of customs dues, of the granting of exemptions at the national level in sectors other than those covered by the legislation on standard tax incentives. In fact once the customs union and the common customs collection system have been established, exemptions granted by any of the States will affect not only the total of its own public revenue, but also, indirectly, the revenue of the other member countries.

The ECLA secretariat proposes to investigate further the economic significance for Latin America of the transition from a common market to a full customs union. The foregoing paragraphs give a brief account of some of the pre-requisites for a customs union in relation to the existing integration instruments. Other more general questions also require study. One essential need is to determine what should be the aims of a customs union set up with due regard to the existing conditions in Central America and to the economic policy aims pursued by Governments in relation to the integration of their countries. In this sense the establishment of a customs union will constitute not so much an agreement on trade policy, as a means of achieving a greater degree of integration of the economies, and may include new means of co-ordination in fields other than the strictly commercial sector.

## 2. TARIFF EQUALIZATION

In the last three years the Economic Co-operation Committee, through its Trade Sub-Committee, has built up the main part of what will be the Central American common tariff. In September 1959 the Governments signed the Agreement on the Equalization of Import Duties and Charges; in December 1960 the Managua Protocol to the Agreement on Equalization was signed, and in July 1962 a new protocol on equalization was signed at San José, Costa Rica. As a result common duties have been agreed on for 1,213 items, amounting to 95 per cent of the total tariff. The common duties on about half these items are already being applied in four of the countries.

<sup>9</sup> See section 7 (d) below.

There remain 63 tariff items for which standard duties have not been agreed on.

The starting point of the equalization process consisted of five separate tariff systems, with marked differences for the same products as regards the rate of duty and even the tariff structure and procedures. Broadly speaking, these tariffs were essentially of a fiscal nature. In this equalization process the Central American Government sought to achieve, in conjunction with uniform duties on imports from third countries, a tariff that would promote development and embody a selective policy aimed at changing the composition of imports and facilitating import substitution in the context of an expanding foreign trade.

The provisional results of the studies being undertaken by the ECLA secretariat for the full evaluation and analysis of the uniform tariff and of Central American tariff policy already make possible conclusions as to the nature of the equalized tariff. The ECLA study covered all the uniform duties for tariff items representing imports amounting to 372 million dollars in 1960. Under the equalized tariff the average rate of duty is 48 per cent, or only 6 per cent more than the average for the five national tariffs that existed before. The structure of the new tariff, on the other hand, involves important changes in relation to groups of products.

The percentage of value represented by the average duty is 82.5 per cent for the consumer goods group, 34.4 per cent for raw materials and intermediate goods, 32.2 per cent for building materials, and 13 per cent for capital goods. These first results indicate that, broadly speaking, the tariff constructed is in line with the development criteria that were laid down by the Committee, and are suitable to present conditions in Central America.

The structural change can be realized by comparison with the average incidence for the same groups of products that prevailed in Central America as a whole before equalization. However, full appreciation of the significance of this change will only be possible when the analysis of the standard tariff is applied at the level of individual products and has covered all products. Nevertheless, the average incidence in Central America before equalization was as follows: consumer goods 64 per cent, raw materials and intermediate goods 30 per cent, building materials 26 per cent and capital goods 12 per cent.

#### *(a) Items awaiting equalization*

The 63 items for which uniform duties have not yet been agreed on represent 5 per cent of the total tariff items.<sup>4</sup> Despite their small number, the items that remain to be equalized are of great significance in relation to the total value of Central American imports from the rest of the world, and as a source of revenue. External purchases of goods for which uniform duties have not yet been established represent about 30 per cent of total imports and 10 per cent of imports from within the region. Thus these are products that, because of the volume of demand and because they are not yet produced in quantity, constitute a heavy foreign trade burden. As regards their revenue significance, provisional data for 1960 indicate that the customs duties paid on imports of these items represent between 27 and 43 per cent, according to the country, of total customs revenue.<sup>5</sup>

During the process of working out the common tariff repeated efforts have been made to agree on the equalization of the charges on most of the 63 items that are still pending. These

<sup>4</sup> Of these items, about 33 per cent are capital goods, mainly for transport activities, and 28 per cent are fuels and lubricants. The remaining 40 per cent are equally divided between the manufacturing and agricultural sectors, and include raw materials, intermediate goods, containers and finished products.

<sup>5</sup> The percentage for each country is as follows: Guatemala 43, El Salvador 41, Honduras 38, Costa Rica 28 and Nicaragua 27. The calculation was based on theoretical revenue for Honduras, and on actual revenue for the other countries.

efforts have failed for a number of reasons. The great revenue significance of some of these items is perhaps the main reason that has made it difficult to achieve the tariff equalization in question. Thus far it has not been made sufficiently clear what would be the effect of equalization on public revenue, and for products essential to economic activity it has not been determined whether, in conjunction with a protective tariff, other measures should be taken to ensure that Central America's requirements will be fully met as regards quality, quantity and price.

At the request of the Governments the ECLA secretariat has carried out detailed studies on what would be the effects of different tariff rates on consumer prices, regional supplies and public revenue from customs duties. These studies cover a relatively small number of the products that are still pending. For other products additional studies are required, because of their importance and the complexity of the problems involved in tariff equalization for these items.

For the work of equalization that still has to be done, the first results of the application of the standard charges already adopted can be taken into account. This may lead to changes in some of the criteria that have been followed hitherto. For example, there has been a tendency as a general principle to free imports of capital goods from all duty, or to set a maximum rate of 15 per cent. Where a trend can be foreseen towards closer economic links with other countries, through special arrangements, it may be advisable to re-examine these and other principles with the aim of strengthening the economic unity of Central America.

If it proves necessary to introduce such a change in policy, the sector that still remains to be equalized provides an opportunity of doing so. Although as regards non-durable consumer goods, building materials, and capital goods for agriculture and industry almost all products have been equalized, much remains to be done, in terms of value, in equalizing durable consumer goods (67 per cent), fuels and lubricants (100 per cent), and raw materials and intermediate goods (26 per cent).

#### *(b) Flexibility of the tariff*

The standard tariff, conceived and formulated as an instrument of development, must respond to the changing needs characteristic of all processes involving growth, especially at a rapid rate. But at the same time there must be regard for the need for a relatively long period to enable the policy recently adopted to be applied and to produce the desired results. Thus one of the main requisites for economic integration at the present stage of the programme is the stability of the tariff.

The procedure for renegotiating the standard duties and charges has been laid down in the Central American Agreement on the Equalization of Import Duties and Charges, article XII of which stipulates that renegotiation shall be at the request of any one of the Contracting Parties, and through the Executive Council of the General Treaty. It further stipulates that the renegotiation shall affect only those goods in respect of which it is applied for, that decisions shall be adopted by the unanimous vote of the States members, and that in any event, every charge shall maintain the uniformity of the tariff.

The procedures and methods laid down have been made flexible so that the common tariff will make it possible, from a technical standpoint, to meet future requirements, while at the same time the tariff's basic stability is maintained. The timely application of the Agreement on this subject, and the efficient functioning of the agencies of the General Treaty, would make for a satisfactory solution of the problems that arise.

In any case, any changes that are gradually introduced in the already agreed levels of uniform duties will constitute attempts to improve the structure of the common tariff so that this instrument can help to establish Central American trade

with the rest of the world on the most desirable lines, and can be increasingly instrumental in ensuring the balanced development of the region's productive activity.

### 3. CENTRAL AMERICAN CUSTOM CODE

For economic integration there is a standard tariff nomenclature for imports and exports, and a common tariff in which most of the items have already been equalized. It remains to draft and adopt standard tariff legislation that will ensure the proper application of the common tariff, and to unify the customs legislation of the five countries. Tariff legislation will have to be embodied in an agreement that, in accordance with article XX of the protocol on tariff equalization signed at San José, must be signed by the Governments no later than one year from the date of entry into force of the said instrument. With respect to the customs legislation, there is a draft standard code prepared by the Working Group of the Trade Sub-Committee which met in Guatemala in 1961. This was prepared in accordance with resolutions 18 (AC/17) and 22 (CCE) of the Economic Co-operation Committee. The drafting took account of the work done between 1954 and 1957 by United Nations technical assistance experts.

The draft code is of a general nature, and includes a provision that it will be supplemented by a body of regulations on specific points. The text provides for common customs arrangements, uniform organization of the national customs offices, and ways and means of co-ordinating them at the regional level.

The first point covers common definitions, terminology, time-limits and procedures in relation to the process of clearing goods through the customs, and in general to all the activity of the customs office. The second covers the concept of a Central American customs service composed of the national customs services, whose functions and form of organization are established on a uniform basis for all the countries. The third point covers procedures for co-ordination of the customs services to ensure the maximum of uniformity in applying the existing provisions; it is laid down that if any questions of classification and so forth arise at the national customs level that affect, or might affect, the common market, they must be dealt with on a regional basis.

The establishment of free zones and free ports is to be governed by the provisions of a special Central American agreement on this subject.

The draft customs code in some respects looks ahead towards arrangements that imply the existence of a Central American customs union. This applies, for example, to the definition of the customs frontiers and to the movement of goods from third countries within Central American territory, and also to the rules governing coastal traffic.

A transitional article establishes the national arrangements that are to apply during the interim period with respect to all these cases.

At its fourth special session, held at Tegucigalpa, Honduras, in November 1962, the Committee requested that the study of the draft code at the technical level should be completed by means of a second meeting of customs officials and experts, due to be held during the first quarter of this year. The Committee also decided at this session to consider the revised draft code at a special session in March 1963.

The main point to be decided, as basic guidance for the studies to be made at the technical level, is the scope of the code, that is, whether it is to be convened merely as an instrument of the common market, or as an instrument that initially will serve the common market, but contains from the outset the additional provisions that will enable it to be applied when the customs union is established.

The draft prepared for the meeting of customs officials in August 1961 was submitted to the Economic Co-operation Committee at its eighth session as a background document. In its present form it can serve as an instrument for unifying

the system of customs operations at the regional level, establishing a close co-ordination between the customs services, and at the same time providing a body of uniform provisions of a technical nature on the process of customs clearance.

### 4. ECONOMIC RELATIONS BETWEEN CENTRAL AMERICA AND OTHER COUNTRIES OR GROUPS OF COUNTRIES

Both the Economic Co-operation Committee and its ancillary technical agencies have intimated that they would welcome a series of studies to determine:

(a) The repercussions on the economic integration of Central America that may possibly be implicit in the multilateral economic co-operation movements currently under way in other parts of the world; and

(b) Prospects, objectives and instruments for a common Central American trade policy, and ways and means of promoting its formulation and implementation.<sup>1</sup>

In the course of its third special session, the Economic Co-operation Committee decided to study at an early date "trade relations between Mexico and Central America and, in general, between Central America and the Latin American Free-Trade Association". Similarly, the Central American Economic Council (established under the terms of the General Treaty on Central American Economic Integration), at its first session, held at Managua (Nicaragua) in August 1962, requested that steps be taken to carry out the studies needed for the purposes of considering a Central American trade policy vis-à-vis the rest of the world.

Furthermore, the States signatories of the integration treaties have pledged themselves to support one another in the maintenance of a common position with respect to the formulation of new trade agreements.<sup>2</sup>

Pursuant to the above-mentioned recommendations, and with the aim of furnishing the Economic Co-operation Committee with preliminary background material on the basis of which to project and systematize its work in this field, the secretariat, in the present note, attempts to give an initial idea of some of the problems associated with the determination of a common Central American economic and trade policy vis-à-vis the rest of the world.

Some of the principal foreign trade statistics for Central America are given in document CCE/VIII/DT.2, together with interesting supplementary data on trade balances, terms of trade and purchasing power of exports as from 1950.

Central America's purchases abroad doubled during the fifties. The value of imports rose from 240 million dollars in 1950 to 515 million in 1960. In 1950, 70 per cent of the area's total imports came from the United States, which is still its leading import and export market. Nevertheless, the relative importance of this market steadily declined, until in 1960 it absorbed approximately 50 per cent. Central America's import trade has shifted towards the countries which now form the European Common Market. In 1950 about 15 million dollars' worth of goods were obtained from these sources, whereas today such purchases amount to some 100 million dollars, or 20 per cent of total imports. The relative importance of purchases from Japan climbed from 1 per cent in 1950 to 6 per cent in 1960. The total value of imports from the members of the Latin American Free-Trade Association (ALALC) did not vary during the decade under consideration; these account for only 2 per cent of total imports.<sup>3</sup>

<sup>1</sup> See *Informe de la Duodécima Reunión del Subcomité de Comercio Centroamericano* (E/CN.12/CCE/SC.1/81/Rev.1), and *Informe de la Tercera Reunión Extraordinaria del Comité de Cooperación Económica* (E/CN.12/CCE/258/Rev.1).

<sup>2</sup> See Multilateral Treaty on Free Trade and Central American Economic Integration, article XXIV; General Treaty on Central American Economic Integration, articles XXV and XXVIII; and Central American Agreement on the Equalization of Import Duties and Charges, article VII.

<sup>3</sup> See CCE/VIII/DT.2, table 1.

Central American exports have followed a similar course. Between 1950 and 1960 they increased from 250 to 440 million dollars. The share of the United States dropped from 80 per cent to 48 per cent. The European Common Market countries absorbed 7 per cent of exports in 1950, and about 30 per cent from 1957 onwards. Japan's purchases in 1960 represented 6 per cent of Central America's total exports, whereas during the early years of the preceding decade the corresponding proportion had been barely 1 per cent. The relative importance of the purchases effected by the ALALC countries at no time exceeded 1 per cent.<sup>1</sup>

Since 1955 Central America has registered persistent trade deficits, which in 1960 amounted to 70 million dollars for the five Central American countries in the aggregate. The only transactions showing favourable balances were those conducted with the European Common Market countries, Japan and Canada, although in this last case again the balance was negative in 1959 and 1960.

The decline observable in the external sector of the Central American economies simultaneously reflects the downward trend in the prices of its staple export commodities and a similarly marked reduction in the rate of expansion of its export volumes. The causes of these phenomena are such that a substantial improvement in the situation as regards exports of traditional commodities can hardly be expected in the immediate future. The terms of trade have also deteriorated. Whereas the prices of the commodities imported by Central America remained fairly stable in 1954-60, the average price of its exports fell by 31 per cent during the same period.

From the foregoing brief résumé of the facts, it can be seen that the improvement of the terms of trade and the prospects of a satisfactory rate of expansion of Central America's total exports will depend not so much upon foreseeable changes in the markets for traditional exports as upon a policy actively directed to the achievement of these ends. Among the possibilities to be studied are those relating to the opening of additional markets in which commodities produced in Central America are in short supply, and which at the same time may be in a position to supply the area with some of the goods that it will not be able to manufacture on the basis of its own market for a comparatively long time.

The need to establish a common Central American foreign trade policy is linked to the key role which the external sector of the economies of the various countries will continue to play in the future. As already pointed out, the relative independence which has recently characterized the growth of Central American trade is in the main a temporary phenomenon.

Furthermore, pursuant to provisions in the General and Multilateral Treaties, the establishment of the Central American common market involved the disappearance of several of the agreements which had previously existed and which had governed the trade relations of the different countries with the rest of the world. Hence arises the need and the occasion to formulate, at the Central American regional level, a unified policy in respect of external economic relations.

As one of the objectives of a common policy, additional to the opening-up of new export markets, the Governments have endeavoured to facilitate the imports required for the development of the manufacturing sector. This has been reflected in some of the criteria applied in relation to tariff equalization. As this process had advanced, attention has gradually been drawn to the necessity of incorporating in the standard tariff certain elements which may later serve as the cornerstone for a regional policy designed to multiply and strengthen economic ties.

For the purposes of the possible future adoption of a common foreign trade policy, a Central American negotiation unit already exists in the shape of the standard tariff, although there are other aspects of trade policy which have

not yet been co-ordinated in Central America. In this connexion, it would be worth while to consider what implications for such a policy might derive from the existence of import quotas or embargoes established at the national level, and systems of exchange controls or restrictions on the use of foreign exchange.

This further stage of co-ordination of certain trade policy instruments once left behind—should it prove needful—stronger ties than already exist should be established with specific countries or groups of countries within the framework of agreements which need not necessarily be confined to trade objectives exclusively. Closer ties presuppose the existence of economic complementarity in relation to the countries with which they are established. Potential complementarity of this kind already exists in respect of several countries which as yet carry on very little trade with Central America. The chief reason for this limited volume of trade is not to be found in the lack of trade agreements, but in more permanent factors affecting freight prospects, and in the absence of any tradition of reciprocal trade among the countries concerned. Consequently, every step in the progressive forging of increased economic links with countries of this type should be accompanied by the establishment of such additional relations in the fields of capital investment and transfer of techniques as may be needed to promote the growth of Central America's export supply.

As regards the countries or groups of countries with which broader economic relations might be sought, there are various possibilities. One of these is represented by the Latin American Free-Trade Association, and has been suggested for study by the Economic Co-operation Committee and discussed by the Latin American countries at the ninth session of ECLA and other meetings. The secretariat of the Committee, at the request of the Governments, offers some information on this point in the present note.

In relation to a possible rapprochement between Central America and ALALC or any other group of countries, there is a problem of timing. The common market is too recently established for its effects to have been fully demonstrated as yet. It would therefore seem desirable that before the conclusion of economic agreements which would throw it open to goods produced by other countries, a sufficient interval should elapse for adequate trial of the opportunities afforded by the market to the area's own industrial development.

Again, belated entry into an economic group comprising markets which even at the national level are more thriving than that of Central America might entail unduly abrupt economic adjustments. Thus, in the specific case of ALALC, when a country joins the Free-Trade Area, it is granted all the concessions which the members have previously accorded one another, but, as a general rule, it undertakes to grant compensatory concessions in return for those it receives through negotiation and those extended to it by virtue of the most-favoured-nation clause. This suggests the need for exercising the greatest care in timing the establishment of any additional economic tie, either with ALALC or with other economic blocs.

The way to link up with ALALC is by accession to the Montevideo Treaty. The Treaty raises no barrier to the establishment of bilateral relations with one or more of the members of the Area. Under the terms of the instrument in question, accession must be unreserved and would imply acceptance of commitments deriving from the whole juridical pattern of ALALC. In the case of individual arrangements, the concessions granted by a member country to third parties would be extended, by virtue of the most-favoured-nation clause, to the other members of the Association.

As regards the manner of accession, the only suitable procedure for Central America would be to join the Association as one economic unit, not by means of five separate acts of accession, even if the terms of these were all exactly

<sup>1</sup> See again CCE/VIII/DT.2, table 2.



the same. During the eighth session of ECLA, the Latin American Governments regarded the Central American countries as a single unit when discussing the establishment of a Latin American common market.

There are several points that still remain to be elucidated. Within the integration treaties, no appropriate mechanisms are established for the conduct of negotiations involving commitments for all five countries as a whole. Nor are there any clauses in the Montevideo Treaty which make provision for the accession of groups of countries.

The characteristic features of the Montevideo Treaty include a set of measures designed to encourage the economic growth of countries at a relatively less advanced stage of economic development. Under this special régime, one or several contracting parties may grant another less developed country exclusive concessions inapplicable to the rest. Similarly, the relatively less developed country is authorized to implement its trade liberalization programme at a slower rate.

In such circumstances, it might be possible to secure advantages in specific ALALC markets which the latter would not extend to the Area, where, in consequence, important commodities might find a sale. In addition to these benefits, the relevant chapter of the Treaty commits the contracting parties, up to a point, to facilitate financial and technical assistance to less developed members.

With reference to the commitments that Central America would assume in acceding to ALALC, the Montevideo Treaty, since it makes no provisions for the accession of groups of countries, also fails to define whether the minimum annual tariff reduction of 8 per cent which members are obliged to grant would be calculated for each individual country or would be computed on the basis of Central America's total exports.

The foregoing considerations relate primarily to the patterns and methods of possible accession in the future. Other problems of more vital significance call for analysis. Among them should be mentioned the fact that the liberalization programme and any steps which the ALALC countries may progressively decide to take towards the integration of their economies may have repercussions on their economic policy, whereby, in turn, their foreign trade policy may be affected.

Another point to be considered is whether Central America's accession to ALALC would restrict its freedom to establish a trade policy in relation to other countries or groups of countries. In this connexion, the Montevideo Treaty does not prohibit its signatories from granting third countries tariff preferences or advantages, provided that such advantages are extended to the Area.

The situations outlined call for detailed studies of the impact which the expansion of Central America's relations with specific areas or countries might have upon its integration; but at the same time, the problems adversely affecting its external sector need to be tackled by means of a common trade policy. An initial step in this direction might take the form of closer contact and a better understanding between the organs of the General Treaty on Central American Economic Integration and the Montevideo Treaty, as well as the establishment of suitable procedures for the analysis of problems, especially with respect to relations with the outside world, that may concern the States members of both Associations.

## 5. INDUSTRIAL INTEGRATION

### (a) *Evolution of the manufacturing sector*

During the last two decades conditions have been relatively favourable to the development of manufacturing industry. The effect of the import restrictions imposed in 1940-45 was later reinforced by that of the bilateral free-trade treaties and, subsequently, that of the agreements of establishing the common market. Thus, the rate of growth of the manufacturing product

between 1950 and 1960 was faster than that of the rest of the economy. Nevertheless, the ratio between industrial production and the total product remained virtually unchanged, amounting to 12 per cent in 1960. This state of affairs is attributable to the incipience of the industrialization process, and is the first sign that so far there has been no steady drive behind the process in question. Even in more recent years (1961-62), with the common market already in operation, the increase in industrial production has been relatively slight.

If the countries are taken as a whole, as early as 1950 over 90 per cent of total consumption of some staple manufactures—for example, food and beverages—was satisfied with domestic production, and there was no longer any scope for import substitution. This fact, in conjunction with the limitations of national markets during part of the period, explains why industrial development had to be based on natural growth where industries of this type were concerned, and on import substitution in respect of other lines of production for which Central American demand is largely satisfied with imports from outside the area.

The expansion of the manufacturing sector observable during the fifties was not accompanied by any very substantial changes in the structure of production. Traditional manufactures, which in 1950 represented 80 per cent of the total product of the sector, still absorbed 77 per cent in 1960. This in turn has a bearing on the further circumstance that no significant progress was made in that period in the over-all import substitution process. The proportion of the total supply of manufactured goods represented by domestic production remained the same—about 63 per cent. Yet as regards import substitution in respect of non-traditional consumer manufacturers, Central American industry achieved considerable advances. Consequently, the stability of the over-all import coefficient is attributable rather to the dynamic rate of growth of demand for capital goods which had to be purchased abroad than to the non-existence of a substitution process. Although demand for goods of this type will have to continue to depend on imports for its satisfaction, it is in respect of some of these activities that the Central American common market offers the greatest scope for the integrated development of the industrial sector.

### (b) *Industrial integration activities*

Under the economic integration programme, the Committee's action in the industrial field has been intensified in recent years in three main directions. In the institutional sector, the Central American Research Institute for Industry (ICAITI) and the Central American Bank for Economic Integration were established. Furthermore, in 1956 the Committee felt it necessary to secure the more sustained participation of private enterprise in integration programmes, especially with respect to the industrial sector, and with this end in view created a Central American Industrial Initiatives Commission, composed of representatives both of the Government and of private enterprise. Subsequently, in 1959, and likewise with the aim of drawing the private sectors into the integration programme, a first meeting of Central American investors was held at San Salvador (El Salvador), on which occasion the various instruments of the programme were considered and discussed and some of the main industrial development problems were indicated. More recently, the Central American Federation of Industrial Chambers and Associations (CECAICA) was established, and in 1962 had already begun to examine some of the problems of industrial integration.

In a different direction, since 1957 the Committee has been studying, through the Technical Assistance services of the United Nations, the possibilities for specialized production of textiles. As a result, a preliminary specialization programme for the cotton textile industry is on the way to completion. This programme is on a regional scale and is being prepared in close collaboration with industrialists in this branch of activity and experts from the secretariat of the General Treaty.

Lastly, as an additional dimension of the programme in relation to the manufacturing sector, the Economic Co-operation Committee, at its fifth session in 1958, recommended to the Governments for their signature the Agreement on the Régime for Central American Integration Industries, which was duly signed. This Agreement was adopted in its entirety in Chapter VI of the General Treaty, which provides that within a specified period from the date of entry into force of the instrument in question the first protocols shall be signed by the Governments. In compliance with the Committee's recommendations, the ECLA secretariat has recently carried out further studies on additional integration possibilities, covering mainly the manufacture of intermediate and production goods. These analyses include a preliminary evaluation of the economic viability of certain branches of industry whose installation would be a complete innovation in Central America, together with a provisional estimate of the cost of the investment required and of the repercussions of the establishment of these industries on the Central American economies.

On the basis of the aforementioned studies, and pursuant to resolution 84 (CCE) of the Economic Co-operation Committee, a meeting of an *ad hoc* working group on industrial development was held at Managua (Nicaragua) in December 1961, to consider projects presented by Governments as eligible for inclusion in the Régime for Integration Industries. The group examined these projects and drafted the provisional text of a protocol incorporating several of the undertakings in question. At a later date, the Central American Research Institute for Industry issued the necessary technical pronouncements, as stipulated in Article IX of the Agreement on the Régime, concerning the classification as integration industries of three projects which had been considered at the Managua meeting and afterwards formally submitted to ICAITI through the secretariat of the Treaty. These pronouncements are based upon minimum capacity requisites and others that are indispensable if a specific activity is to be classified as an integration industry, with due regard to such determinants as efficiency and costs. On the basis of the Institute's decisions and the reports submitted by the secretariat of the Treaty, the Executive Council, at its second session, formulated the draft protocol appearing as an annex to the document presented to the eighth session of the Committee, and recommended it to the Governments for signature.

As part of a co-ordinated over-all approach to Central America's industrial development problems, the Committee deemed it necessary (resolution 50 (CCE)) to standardize existing legislation on tax exemptions for the establishment of expansion of industries, in order to eliminate discrepancies offering an inducement to invest or to select a particular site, such standardization to cover both the amount of the exemptions and the criteria applied in granting them.

At the request of the Committee, an expert from the Bureau of Technical Assistance Operations prepared a report on the subject. On the basis of this report and under the terms of resolution 85 (CCE) of the Committee, a working group analysed the problem, and, in the course of three sessions,<sup>1</sup> prepared a draft Central American agreement on tax incentives to industrial development. When the Economic Co-operation Committee had taken cognizance of this draft at its third extraordinary session, held at San José (Costa Rica), and had given the text its final form, the Agreement was signed by the Governments on the same occasion.

The Agreement makes uniform provision for classification of industries, amounts of exemptions and legal administration procedures, and stipulates that the granting of tax incentives shall be established on a completely regional basis within a

maximum period of seven years from the date of the Agreement's entry into force. The greatest benefits accruing from the uniform legislation are conceded to the industries producing capital goods and raw materials, considerations relating to labour inputs and the relative importance of inputs from Central American sources being also taken into account. With the application of the instrument in question, uniformity will have been achieved in this significant respect, and the system of incentives to industrial investment will be improved.

The Agreement relates only to manufacturing industry proper. With regard to assembly work, it establishes a commitment to the effect that, within a period of not more than one year, an additional protocol shall be signed, which shall institute the system of tax incentives applicable to such activities, and shall comprise, *inter alia*, provisions relating to the trade régime to which assembly goods will be subject in the Central American common market. It is likewise stipulated that tax incentives applicable to enterprises manufacturing pharmaceutical (including medical) products shall be governed by a special protocol. In this last connexion, the Ministers of Economy, who form the Board of Directors of ICAITI, have requested the Institute to carry out the necessary technical studies. These two protocols have still to be drafted.

To ensure the satisfactory application of the Agreement, the contracting parties will adopt rules of procedures within a period not exceeding thirty days from the date of its entry into force. These rules of procedure will be drawn up by the Executive Council of the Treaty.

#### (c) Future requirements and measures

The foregoing measures reflect the long-term view adopted in the Committee's studies on industrial development. From this same long-term standpoint, the development of the manufacturing sector will call for a very substantial volume of new investment. With the idea of approximately estimating the amount that will be required, the ECLA secretariat has made a preliminary examination of this problem. On the assumption that during the next ten years per capita income will increase at an average annual rate of 2.5 per cent, demand for manufactured goods may be expected to rise from 1,328 million dollars in 1960 to 2,738 million in 1970. Given the prospects and projections for the capacity to import, Central America's own production would have to increase from 848 to 1,828 million dollars in order to satisfy that part of demand which could not be covered with imports.

To obtain this additional output the capacity of manufacturing industry would have to be expanded at an estimated investment cost of 950 million dollars at 1960 prices. In this calculation the conclusions previously reached in a preliminary study, prepared on the occasion of the establishment of the Central American Bank for Economic Integration, are modified by the incorporation of the figures for Costa Rica, which at that time were not included.

Investment on such a scale implies the determination of specific industrial development possibilities, better knowledge of existing natural resources, and the gradual training of skilled labour and technicians at the intermediate professional levels, as well as other elements which may directly influence the productivity of the new investment. Hitherto no attempt has been made to carry out a study of industrial development resources and possibilities in Central America which will pave the way for an over-all statement of the problem and, at the same time, for practical analysis of the various elements to be brought into play in order to expedite the development of the industrial sector. A project of this type would involve both broad questions of economic analysis and purely technical issues. Current and future Central American demand for industrial products might be determined by types and classes of goods, and available resources quantitatively assessed in relation to this demand, while at the same time the viability of those industries of regional scope whose economic basis of

<sup>1</sup> Held at Guatemala City (Guatemala), from 17 to 28 July 1961; Guatemala City (Guatemala), from 15 to 22 November 1961; Mexico City (Mexico), from 26 March to 3 April 1962.



operation can apparently be found in the common market might be evaluated.

With respect to human resources, information would have to be obtained on the present composition of the labour force, its level of qualifications and skills, and the existing training institutions, all in the light of future increases in skilled labour requirements. The Economic Co-operation Committee has included in its programme for 1963 a study of the regional labour force which will be undertaken by experts from the United Nations Bureau of Technical Assistance Operations (BTAO) and from the International Labour Organization. This study might serve as a basis for more detailed research, in the course of which problems relating to the training of skilled labour would be analysed solely within the framework of industrial projections and in relation to specific branches of industry.

Not enough is known of Central America's resources at present. Information of this type would be of basic importance for the determination of many of the future industrialization possibilities. A complete study of such resources generally takes a very long time, and perhaps its findings could not be obtained soon enough for the purposes of the more immediate investment decisions. Consequently, under the auspices of the Committee and with the co-operation of ICAITI, the scope of the research might be confined at first to the mineral resources used as raw materials by those industries whose economic viability in the Central American region had been established.

With a view to the more efficient utilization and the development of agricultural raw materials for industrial processing, activities supplementary to those already undertaken under the integration programme might also be carried out.

At present many goods manufactured from agricultural raw materials are still imported. A thorough analysis of this problem would involve detailed studies of a technical nature in so far as soil surveys and other equally specialized aspects of the subject were concerned. On the basis of these surveys, consumption and total imports of goods manufactured from agricultural raw materials could be compared with the possibilities of producing such goods in Central America. This comparison might constitute the point of departure for an analysis of the development prospects of a considerable number of manufacturing industries.

Central American industry uses a large proportion of the agricultural raw materials available in the area. Nevertheless, imports of processed foodstuffs amounted to almost 40 million dollars in 1960, and the value of textile imports in that same year was 50 million dollars. These amounts, plus the figures for other manufactures of agricultural origin, give a sum total of 149 million dollars' worth of imports in 1960.

With a better knowledge of natural and other resources, the actual formulation of specific industrial projects could be carried beyond the stage of pre-investment studies to that of complete analyses of viability. If the information in question were at the disposal of private enterprise and Central American institutions, it might be conducive to new investment. It is needed mainly in respect of industries of regional scope which constitute a support for the expansion of the whole of the manufacturing sector. The same approach might include efforts to identify possible industrial complexes formed by branches of industry whose growth prospects are overlooked when research is carried out in watertight compartments at the project level.

It would also seem needful to obtain more exact data on manufacturing production capacity and other characteristics of industry, with due regard not only to existing plant but to expansion plans and new projects. Such information is an indispensable requisite for the analysis of specialization or industrial complementarity possibilities.

In a more general context, it must also be borne in mind that the Central American common market alters or will tend to alter the pattern of the criteria governing the choice of sites for productive activities. The impact of the several factors on which this selection depends—such as the size of the plant, the labour supply, the dimensions of the market, and transport facilities—is not the same when the location of industries is projected at the regional level and when it is determined, as was the case until recently, by the limitations of national markets.

The findings of studies on all the foregoing topics would more fully acquaint the Economic Co-operation Committee with the problems of duplication of investment and under-utilization of existing capacity, besides affording it a first glimpse of the opportunities for complementarity between various sectors of industry and for increased specialization.

## 6. ELECTRIFICATION

The Central American Electrification Sub-committee was set up under the terms of resolution 59 (CCE), adopted by the Committee in June 1958. It is composed of representatives of official agencies and private electricity companies, and its primary aims are the promotion of common and co-ordinated utilization of the hydroelectricity potential existing in the various countries; the establishment of standard bases for research on hydro resources; and other objectives relating to such matters as the study of the power market, the development of uniform statistics on the electricity industry and the formulation of technical norms for the operation of electricity companies and agencies in the Central American countries.

The Sub-Committee held its first session at San Salvador (El Salvador) in November 1959. Its programme of activities is directed primarily towards the study of specific possibilities for co-ordinated hydroelectric and interconnexion projects. A United Nations Technical Assistance expert has made a preliminary study of the probable repercussions of interconnexion between two of Central America's principal hydroelectric systems on the costs of investment and of the generation and distribution of power. According to the findings obtained, which must be regarded as provisional, the joint operation of the two systems would imply a reduction in investment amounting to 28 million dollars by 1970, and a substantial saving in respect of generation and distribution. The findings in question are being amplified by the mission of experts which, at the request of the Committee, began work in Central America in the course of the past year. This second phase comprises the analysis of further possibilities for the combined operation of electricity systems as between other Central American countries. The findings of this study will be presented to the Sub-Committee at its next session, which should take place in 1963.

The Sub-Committee's work programme also includes research on hydroelectric resources and inter-Central American training for research of this type, as well as the preparation of an inventory of the hydrological stations in operation in the five Central American countries and Panama. The above-mentioned mission on electric power in Central America, in consultation and co-operation with national agencies, has carried out a study on the pertinent research activities that the countries are undertaking, and has formulated a project for the establishment of a network of hydrological stations as part of a complete programme for the survey and development of hydro resources on a regional basis.

Furthermore, in 1959 it was decided to make an analytical study of the tariff rates in force in the countries of the area. The findings of the research conducted in this connexion appear in a comparative study of electrification costs in Central America and Panama. Here the various components of the price of electric power in each individual country are established, and the reasons for the considerable disparities observable are analysed.

Pursuant to recommendations of the Sub-Committee, a project for a Central American standard accounting system for the electric power industry has been drafted.

The report of the first session of the Central American Electrification Sub-Committee (E/CN.12/CCE/207), with the appended resolutions has been submitted to the Committee.

## 7. TRANSPORT

### (a) *Present status*

When the integration programme was launched in 1951-52, the inter-Central American transport situation was such as to call for substantial improvement, through the establishment of a system which would efficaciously serve the region as a whole. The primary purpose of the system then existing was to link up the areas where agricultural exports were produced, and the most important population centres in the interior of each country, with its ports and sea routes. Even so, there were investment and operational problems that were difficult to solve.

The signs of reform and of a new approach which began to be apparent during the fifties were essentially attributable to national efforts to expand internal road networks. In 1946, Central America's all-weather roads covered about 7,900 kilometres. During the next few years, road-building increased at an annual rate of 3.7 per cent, with the result that by 1952 the total extension was 9,900 kilometres. In 1961 such highways represented a total length of 20,700 kilometres, the annual rate of growth having risen during the intervening period to 8.5 per cent.

The development of motor vehicle transport has been considerable. Between 1952 and the present time the number of vehicles in circulation has doubled, and more than two-thirds of them are passenger transport and freight vehicles. It is estimated that in 1961 total freight movements amounted to almost 1,000 million ton/kilometres.

Railway, inland waterway and coastal transport have lagged behind, and the development of the corresponding networks, equipment and operations has remained stationary. The railways have not enlarged their networks, nor have they renewed their equipment for over ten years. Even so, they convey a considerable volume of freight. In some countries they carry between 60 and 80 per cent of total exports and imports transported by sea.

### (b) *Central American road plan*

The Economic Co-operation Committee initiated its activities in the field of transport with its resolution 4 (AC/17), adopted in 1952, sponsoring an integrated study of the transport system in Central America. Later, it established the Transport Sub-Committee to undertake this and other studies.

Pursuant to the aforesaid resolution, a mission appointed by ECLA, the Technical Assistance Administration (now BTAO) and other United Nations agencies carried out the over-all study requested and prepared a preliminary outline for a regional highway system. The study was considered and noted by the Committee in 1953.<sup>\*</sup> Subsequently, in resolution 92 (CCE), the Committee recommended the formulation of a complete programme of activities geared to the establishment of the Central American road plan.

In 1961 a Technical Assistance expert prepared a study on the progress of the Central American road network and the probable cost of its completion.<sup>1</sup> A working group formed by the secretariat of the Treaty, the ECLA secretariat and the Central American Bank for Economic Integration was set

<sup>\*</sup> See *Transportation in Central America* (E/CN.12/356; ST/TAA/Ser.C/8), published in Spanish only under the title *El Transporte en el Istmo Centroamericano*, United Nations publication, Sales No.: 53.VIII.2, September 1953.

<sup>1</sup> See *Informe Preliminar sobre Red Vial Centroamericana* (E/CN.12/CCE/250; TAO/LAT/38).

up in 1962 to proceed with the formulation of the draft plan. The results will be submitted to the Transport Sub-Committee at its next session, which is to be held in 1963. The report of the Technical Assistance expert on the Central American road network has been presented to the Committee.

Broadly speaking, the undertakings of regional interest projected in the 1952 study comprised about 3,930 kilometres of new highway construction or road improvement, at an estimated cost of 102 million dollars. These operations would represent 95 per cent of the total included in the mission's recommendations, which amounted to 4,142 kilometres. It was also recommended that the projects concerned should be carried out within a period of seven years, concurrently with other programmes at the national level to a value of 88 million dollars. Subsequently, more routes were included and the extent of the network increased to a total of 5,164 kilometres. So far, about 47 per cent has been paved (2,443 kilometres). Second-class roads, which can also be used in all weathers, represent a total length of 2,087 kilometres. The aggregate length of first and second-class roads is thus 4,530 kilometres, i.e., 87 per cent of the total. Most of the remaining 13 per cent is constituted by dry-weather roads. It may be noted, however, that considerable stretches—estimated at 30 per cent of the all-weather roads—urgently need reconstruction or improvement. Furthermore, supplementary works are required including permanent bridges.

The system of highways of regional importance links up the most densely-populated areas, the centres of industry, services and trade, and the principal farming areas situated along the Pacific belt, but at a much heavier investment cost than was estimated in 1952. For future undertakings a cost of about 88,000 dollars per kilometre is calculated.

In the central areas all the highways classified as of regional importance have been completed; they are all-weather roads and 90 per cent of them are paved. In contrast, nearly one-third of the roads in frontier districts cannot be used in all weathers. This prevents any expansion of the area of influence of longitudinal highways and deprives the system of its regional scope.

### (c) *Maritime transport and ports*

In resolution 21 (AC/17) and 92 (CCE), of 1953 and 1959, the Committee decided that the problems of port and maritime transport development should be considered within the integration programme. The studies carried out indicate the need for the highest priority to be assigned to the physical reconstruction of ports, the modernization of equipment, port facilities, transport and communications, and port administration. Another recommendation is that up-to-date port and maritime legislation and regulations be established and the training of administrative personnel promoted.

In resolution 19 (CCE), the Committee urged that maritime legislation be brought up to date. Accordingly, the *Proyecto de Código Marítimo Uniforme para los Países Centroamericanos* (Draft Standard Maritime Code for the Central American Countries)<sup>m</sup> was prepared, together with another study, properly co-ordinated with the former, entitled *Disposiciones para la Legislación y Reglamentación Portuaria Uniforme en Centroamérica* (Provisions for Standard Port Legislation and Regulations in Central America).<sup>n</sup> These two projects were discussed by the competent government agencies. Generally speaking, national working groups considered that it would be premature to apply a regional maritime code, since the relevant legislation is closely linked to trade codes and these in turn seem to need overhauling. As regards port legislation, some countries have taken steps to apply a good many of the draft regulations that have been formulated, but further action in this field would appear to be required.

<sup>m</sup> TAO/LAT/27; CCE/SC.3/01.1.

<sup>n</sup> TAO/LAT/28 (limited distribution).

Progress has been made in the construction of docks and other works at the chief ports, on the basis of investment which in 1956-61 amounted to approximately 18 million dollars. These projects would have to be supplemented in the future by the establishment or expansion of such technical services and material facilities as would increase port efficiency and expedite the handling of shipping.

#### (d) Other matters

If by its very nature inter-Central American trade has generated increased demand for highway facilities and motor vehicle transport, the progress of the common market towards its final form and the creation of a single customs territory seems likely to call for the adequate expansion of other means of transport. The need to remedy infrastructural deficiencies at a rapid rate has precluded thorough study of the application of more modern constructional technology; nor has it been possible to prevent duplication as between two or more means of transport. But this phase may soon come to an end, and the policy to be pursued can then be systematically defined.

The development of the motor vehicle transport industry has lagged behind the road-building programme, owing, *inter alia*, to the lack of continuity in inter-Central American traffic and to the difficulties attending the establishment of programmes relating to the replacement of vehicles and the expansion of mobile equipment inventories.

So far, it has not been possible to create at regional level an efficient, expeditious and economically satisfactory motor transport service to meet the needs of the development of regional trade. In article XXIX of the General Treaty, provision is made for the adoption of transport regulations which would eliminate some of the administrative difficulties that discourage services of this type.

Moreover, the amounts of freight carried in different directions are not evenly balanced. It has been impractical to use specialized vehicles for particular types of goods because trade in the products concerned is intermittent. These problems help to keep costs of motor transport high, so that they are almost prohibitive in the case of goods of low economic density.

The importance of modernizing telecommunications has been touched upon in relation to the establishment of various radio-communication services in air and maritime transport, and also as a means of expediting trade movements.<sup>9</sup> Since 1960 the Central American Governments have decided to grant priority to the establishment of satisfactory public telecommunication services, and have begun consultations with international financing institutions. In response to the interest displayed by the Governments, a mission from the International Bank for Reconstruction and Development (IBRD) visited Central America at the end of 1961, and in March 1962 the United Nations Special Fund decided to finance a study which would serve as a basis for the planning and design of the telecommunications network in each country, with due regard, in addition, to regional and international communication requirements. A fifteen-year basic plan is to be established, together with a detailed programme of its targets for the first five years of the plan, and an estimate of its cost.

#### 8. CO-ORDINATION OF HOUSING PROGRAMMES

The Economic Co-operation Committee has been devoting attention to housing problems since 1957. The Housing, Building and Planning Sub-Committee was established under the terms of resolution 61 (CCE), adopted by the Committee during its fifth session, in 1958. The Sub-Committee, composed of the high-ranking officials responsible for national housing institute programmes in Central America, enjoys the co-operation of the United Nations Bureau of Technical Assistance

Operations (BTAO) and, more recently, the Inter-American Development Bank (IDB) and the Organization of American States (OAS).

The activities pursued to date include the determination of bases for the establishment of regional specifications in respect of building materials; a study on the natural resources of Central America that could be used in the manufacture of housing materials; an inventory of the construction materials industries already in existence in the Central American countries; a complete project for the first phase of application of a modular co-ordination system in national housing programmes; and a detailed analysis of the recent evolution and current status of these programmes. The secretariat has presented reports and documents on each of these topics.<sup>9</sup>

The final modular co-ordination project was prepared by a working group which met at San Salvador (El Salvador) in 1962. This project, together with the other studies and documents mentioned above, is to be submitted for the consideration of the Housing, Building and Planning Sub-Committee at its second session, to be held in 1963.

As regards other activities, in 1962 officials from the five Central American countries and Panama actively participated in the Latin American Seminar on Housing Statistics and Programmes which took place in Denmark. Furthermore, fellowships have been distributed among the five Central American countries and Panama to provide a year's training, in several European countries, for housing institute officials specializing in design and construction materials. These activities are being carried out with the co-operation of the United Nations and of various European institutions.

The analysis of housing problems in the countries under consideration reveals, in 1962-63, an expansion of the building activities of the various agencies operating in this sector. External financing amounting to approximately 45 million dollars is available for the construction of 20,000 housing units. Nevertheless, complete satisfaction of the requirements deriving from population growth is still a long way off, and if any attempt were made to cover part of the cumulative deficit the gap would be still wider. On the basis of a projection which estimates the increase in the population of Central America during the next two years at 700,000 inhabitants, new housing requirements will probably amount to about 140,000 units in that period.

Of the work outstanding, the following are the proposals which might be considered for immediate implementation. With respect to modular co-ordination, on the basis of a report by the United Nations Technical Assistance expert assigned to this programme, the meeting held at San Salvador (El Salvador) formulated the modules for co-ordination purposes and laid down the procedure for their first application on an experimental scale. To ensure the continuity of this effort, a pilot housing programme using the modular system should be carried out with the participation of national housing institutes and the Central American enterprises producing construction materials.

<sup>9</sup>See *Coordinación modular en la vivienda económica* (E/CN.12/CCE/SC.4/9); *Informe del grupo de trabajo sobre coordinación modular en vivienda* (San Salvador, El Salvador, 14 to 23 August 1962) (E/CN.12/CCE/SC.4/10); *Estado actual de los recursos naturales del Istmo Centroamericano y su posible aplicación en la manufactura de materiales de construcción utilizables en la vivienda* (E/CN.12/CCE/SC.4/16); *Industrias o establecimientos que fabrican materiales de construcción en el Istmo Centroamericano* (E/CN.12/CCE/SC.4/15); *Glosario de términos empleados en arquitectura y construcción en el Istmo Centroamericano* (E/CN.12/CCE/SC.4/10); *Programas de construcción de viviendas en los países del Istmo Centroamericano para 1962-63 y su relación con los materiales de construcción requeridos* (E/CN.12/CCE/SC.4/17); *Materiales de construcción requeridos para los programas de construcción de viviendas 1962-63, en los países del Istmo Centroamericano* (E/CN.12/CCE/SC.4/17/Add.1).

<sup>9</sup> *Informe de la Primera Reunión de Inversionistas Centroamericanos* (E/CN.12/CCE/206), annex VI.

With a view to improving the construction of housing units and ensuring the necessary flow of supplies, attention has been drawn to the need to promote the use of hand tools and low-cost construction equipment which would help to increase productivity and improve standards of quality. An attempt would be made to introduce methods of construction which, while highly efficient, permit maximum absorption of the labour force. In these activities specialized technicians would also take part, giving demonstrations on building sites. As an additional line of approach, promotion activities could be undertaken in respect of the installation and expansion of Central American production tools and light basic equipment for such purposes.

To encourage the development of production of construction materials in Central America, thorough research on the regions' natural resources should be conducted on selective lines. In some cases—for example, those of minerals and forest resources—suitable raw materials for the manufacture of building materials are known to exist in Central America, but no complete studies are available as a basis for programming the establishment of the corresponding branches of industry. However, the study already carried out by the United Nations Technical Assistance expert has made it possible to clarify and determine,

*inter alia*, the existence of resources, such as those of volcanic origin, which could be turned to account forthwith, and which might provide some raw materials at lower costs than those currently prevailing. The aforesaid study also indicates several possibilities for trade in such raw materials among the Central American countries, which might be the subject of detailed research.

A comparison between this inventory of natural resources and the inventory, also taken in Central America, of existing construction materials industries might bring to light, over the short term, additional possibilities for industrial development in this important sector of the economy.

In addition to the foregoing activities of the Sub-Committee, mention should be made of the increasing emphasis placed in the Central American countries on public investment in housing, as well as of the fact that ampler external financing facilities than formerly existed have recently been made available. Clearly, if these three elements were brought into play in Central America on the basis of a co-ordinated approach at the regional level, the objectives pursued by the Governments in this field could be sooner and more efficaciously attained.

## Appendix I

### REPORT OF THE THIRD SPECIAL SESSION OF THE CENTRAL AMERICAN ECONOMIC CO-OPERATION COMMITTEE

(San José, Costa Rica, 23 to 31 July 1962)

#### Introduction

#### SCOPE OF THE REPORT

The present report (E/CN.12/657) gives an account of the proceedings of the third special session of the Central American Economic Co-operation Committee, held at San José, Costa Rica, from 23 to 31 July 1962.

The report is arranged as follows: part I—background of the session; part II—membership of delegations, organizations of work, summary of proceedings, conclusions; part III—resolutions. The instruments signed by the Governments of the Central American countries on the occasion of the session are included as annexes.

#### Part I

#### BACKGROUND

On signing the General Treaty on Central American Economic Integration in December 1960, the Governments of Guatemala, El Salvador, Honduras and Nicaragua left that instrument open for the accession of any Central American State that had not originally signed it. At the same time, under the terms of resolution 105 (CCE), they urged the Government of Costa Rica to become a party at the earliest possible moment to the General Treaty and to the other agreements which had been signed by them on the same occasion and had likewise been left open for accession by Costa Rica.

Sixteen months after the signing of these treaties and agreements, the Government of Costa Rica decided to accede to the General Treaty, to the Agreement establishing the Central American Bank for Economic Integration and to the Managua Protocol on the Equalization of Import Duties and Charges. To this end, it had carried out the preliminary research and studies necessary to settle—in conformity with the procedures laid down in the various agreements—the specific points which had already been dealt with in relation to each of the signatory States but still remained pending in relation to Costa Rica.

In the General Treaty, the signatory States, while granting one another free-trade treatment in respect of most of the products originating in their respective territories, agreed to establish a regional common market and to take the necessary steps to bring it into full operation within a period of five years and ensure its proper functioning. Among the more important of these measures were the establishment of the Central American import tariff, as provided for in the Agreement on the Equalization of Import Duties and Charges, and the

adoption of a Central American régime of fiscal incentives to industry. These two objectives were given chief attention under the Economic Integration Programme during 1961 and 1962.

The work of tariff equalization required three series of meetings on the part of the Central American Trade Sub-Committee. The reasons for this were: the large number of tariff items for which duties had to be equalized; the need, through equalization, to pursue a tariff policy that will promote the region's economic development; and the increasing complexity of the tasks as the equalization process advances.

Similarly, the drafting of a uniform system of fiscal incentives to industrial development made it necessary for the *ad hoc* Working Group established under resolution 85 (CCE) to hold three sets of meetings.

The draft Protocol to the Central American Agreement on the Equalization of Import Duties and Charges and the draft Central American Agreement on Fiscal Incentives to Industrial Development, which were submitted to the Committee at its third special session, were the outcome of eighteen months' activity on the part of the Central American Trade Sub-Committee and the Working Group mentioned above, which received advisory assistance from the ECLA secretariat and, since its establishment, from the Permanent Secretariat of the General Treaty. The final texts of both drafts were prepared at the Meeting of Consultation held at San José, Costa Rica, from 16 to 21 July 1962.

With the adoption of these two new agreements, the Central American Governments will have made substantial progress towards meeting two of the requirements for economic integration which have become more

imperative than ever with the entry into force of the General Treaty in June 1961. In the first place, the system of incentives to the economic development of the area and to the expansion of trade among the member countries will have been made complete. In the

second place, in so far as tariff policy and fiscal exemptions are concerned, new and important instruments will have been forged to eliminate possible sources of unfair competition within the area and to maintain a proper balance in the development of the various countries.

## Part II

### THIRD SPECIAL SESSION OF THE COMMITTEE

#### A. MEMBERSHIP, ATTENDANCE AND ORGANIZATION OF WORK

The session was attended by delegations from Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama. Representatives of United Nations agencies, the Organization of American States and other international as well as Central American organizations were also present. The delegations were composed as follows:

##### (a) Delegations of member countries

###### Guatemala

*Chairman of the delegation:* Jorge L. Caballeros, Minister for Economic Affairs.

*Representative of the President of the Republic:* Julio Prado García Salas, Minister for Central American Integration.

*Members:* Mario Efraín Hernández Maldonado; Hugo Ordóñez; Oscar Cobar Castillo; Gerardo Martínez Ramos; Luis F. López Valdizón; Carlos A. Steiger; Gilberto I. Corzo I.; Oscar René Chiu Fuentes; Joaquín Colina Campollo; Mario Rey Rosa; Luis Antonio Díaz Vasconcelos; Gert Rosenthal.

###### El Salvador

*Chairman of the delegation:* Salvador Jáuregui, Minister for Economic Affairs.

*Members:* Victor M. Cuéllar Ortiz; Juan Adalberto Menjívar; Ricardo Escoto; Ricardo Garza Arriaza; Alfonso Moisés-Beatriz; Abraham J. Siman.

*Observer:* José Mixco.

###### Honduras

*Chairman of the delegation:* Jorge Bueso Arias, Minister for Economic and Financial Affairs.

*Members:* Mario A. Rendón; Gautama Fonseca; Héctor Alfonso Pineda L.; José Vicente Díaz Reyes; Ricardo Perdomo.

*Advisers:* Moisés Herrera; Luis Adalberto Figueroa Ponce; Zacarías E. Bendeck.

###### Nicaragua

*Chairman of the delegation:* Juan José Lugo Marenco, Minister for Economic Affairs.

*Members:* Gustavo A. Guerrero; Jorge Armijo Mejía; Gustavo A. Fernández; Manuel Castillo Jarquín; Carlos Gabuardi.

###### Costa Rica

*Chairman of the delegation:* Raúl Hess Estrada, Minister for Economic and Financial Affairs.

*Members:* Rodrigo Soley; Fernando Fournier; Manuel Guevara; José Sancho; Alvaro Sancho; Lino Vicarioli; Rigoberto Navarro Meléndez; Francisco Terán Valls; Rodolfo Trejos Donaldson; Ronald Odio Hernández; Trino Araya; Carlos Yglesias; Rafael Angel Arguedas; Alvaro Jiménez.

##### (b) Delegation of Panama

*Chairman of the delegation:* Jorge Ricardo Riba.

*Members:* Germán Rodríguez Jr.; Guillermo Chapman; Rodrigo Núñez.

##### (c) Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA)

Pedro Abelardo Delgado; Alberto Fuentes Mohr; Mauricio Baca Muñoz; Abraham Bennaton Ramos; Amílcar Martínez Arguera.

##### (d) Observers

###### (i) International organizations

*International Labour Organisation:* Livio A. Costa.

*Food and Agriculture Organization:* Angelo De Tuddo; Madan Mohan Babbar; Antonio Gargurevich.

*International Monetary Fund:* Jorge A. Montealegre; Sergio Nicolau.

*International Bank for Reconstruction and Development:* Fawzi Habib.

*Organization of American States:* Alvaro Magaña.

*Inter-American Development Bank (IDB):* Juan Angel Núñez Aguilar; Laureano Rodrigo; Arturo Morales Flores; Rodrigo Botero.

*Panel of Experts of the Alliance for Progress:* Manuel Noriega Morales.

###### (ii) Central American organizations

*Organization of Central American States (OCAS):* Marco Tulio Zeledón; Guillermo Dávila C.; Demetrio Gallegos; Victor Manuel Nieto Garay; Jorge Porras Zúñiga.

*Advanced School of Public Administration for Central America and Panama (ESAPAC):* José Galván Escobedo.

*Central American Research Institute for Industry (ICAITI):* Otto J. Stern; Mario Dalponte.

*Central American Bank for Economic Integration (BCIE)*: Enrique Delgado.

The session was also attended, on behalf of the Technical Assistance Board, by Mr. Luis María Ramírez Boettner, the Regional Representative for Central America, and on behalf of the United Nations Information Centre for Central America, by Mr. Franklin E. Kozik.

The Secretariat was represented by Mr. Cristóbal Lara Beutell, Director of the ECLA Mexico Office; Mr. Carlos Manuel Castillo, Deputy Director; Mr. Porfirio Morera Batres of the Bureau of Technical Assistance Operations; Mr. Alvaro de la Ossa, Mr. José Tomás Zepeda and Mr. Enrique Díez-Canedo.

Mr. Raúl Hess Estrada, Chairman of the delegation of Costa Rica, was elected Chairman of the session, and Mr. Jorge Bueso Arias, Chairman of the delegation of Honduras, was elected Rapporteur.

The proceedings of the Committee were conducted in plenary meetings. Certain aspects of the draft agreements to be considered at the session were referred for study to working groups set up for the purpose and comprising representatives of all the delegations.

#### B. AGENDA

The Committee considered the provisional agenda (E/CN.12/CCE/254) prepared by the secretariat and adopted it in its original form except for item 5, which was expanded to include consideration of Costa Rica's accession to the Managua Protocol on the Equalization of Import Duties and Charges.

In connexion with agenda item 7 concerning the date and place of the eighth regular session, the delegation of Nicaragua expressed the view that the Committee should at that session consider, for purposes of signature, a first protocol to the Agreement on the Régime for Central American Integration Industries, incorporating such industrial projects as might be ready by the time of that session even if some countries, for one reason or another, might not have submitted projects for integration industries.

The delegation of Nicaragua likewise asked that the Committee should, at the current session, consider the possibility of a joint Central American policy regarding the International Coffee Agreement then being drafted at United Nations Headquarters. The Committee decided not to include this item in the agenda. It was, however, considered at a special meeting of the Central American Economic Council held on 28 July.

It was decided that the following items proposed by the delegation of Guatemala should be considered by the Committee at one of its sessions in the near future:

- (a) Formulation of a Central American code of industrial standards;
- (b) Establishment of a Central American tourist trade sub-committee and of a regional tourist institute;
- (c) Trade relations between Mexico and Central America and, in general, between Central America and the Latin American Free Trade Association;
- (d) Application of the decimal metric system;
- (e) Study of wages in the Central American countries.

Again at the request of Guatemala, it was decided that the Ministers for Economic Affairs should consider the participation of the Central American Economic Council in the economic reorganization activities of the Organization of Central American States.

The agenda as adopted—with the single addition referred to above—was as follows:

1. Opening meeting
2. Election of Chairman and Rapporteur
3. Consideration and adoption of agenda
4. Accession of Costa Rica to the Central American Common Market
  - (a) Accession of Costa Rica to the General Treaty on Central American Economic Integration and to the Agreement establishing the Central American Bank for Economic Integration
  - (b) Adoption of measures for negotiation of the schedules of goods which will be subject under the General Treaty to temporary régimes of exemption from free trade as between Costa Rica and the other member countries

#### *Documents:*

*Nota de la secretaría sobre la Tercera Reunión Extraordinaria del Comité de Cooperación Económica del Istmo Centroamericano (E/CN.12/CCE/255)*

*Nota conjunta de la secretaría de la CEPAL y de la Secretaría Permanente del Tratado General de Integración Económica Centroamericana, sobre la adhesión de Costa Rica al mercado común centroamericano (E/CN.12/CCE/258/Rev.1)*

#### *Reference documents:*

General Treaty on Central American Economic Integration (E/CN.12/552)

Agreement establishing the Central American Bank for Economic Integration (E/CN.12/552)

Report of the seventh session of the Central American Economic Co-operation Committee (E/CN.12/552)

5. Equalization of tariffs
  - (a) Accession of Costa Rica to the Managua Protocol on the Equalization of Import Duties and Charges
  - (b) Consideration of the draft Protocol to the Central American Agreement on the Equalization of Import Duties and Charges

#### *Documents:*

*Nota de la secretaría sobre la Tercera Reunión Extraordinaria del Comité de Cooperación Económica del Istmo Centroamericano (E/CN.12/CCE/255)*

*Informe de la Reunión de Consulta celebrada por los Gobiernos Centroamericanos del 16 al 21 de julio de 1962 (E/CN.12/CCE/253/Rev.1)*

Draft Protocol to the Central American Agreement on the Equalization of Import Duties



and Charges (E/CN.12/657-E/CN.12/CCE/258/Rev.1)

*Informe de la Décima Reunión del Subcomité de Comercio Centroamericano* (E/CN.12/CCE/234)

*Informe de la Undécima Reunión del Subcomité de Comercio Centroamericano* (E/CN.12/CCE/239)

*Informe de la Duodécima Reunión del Subcomité de Comercio Centroamericano* (E/CN.12/CCE/247)

*Reference documents:*

Central American Agreement on the Equalization of Import Duties and Charges (E/CN.12/533)

Protocol to the Central American Agreement on the Equalization of Import Duties and Charges (E/CN.12/552)

6. Equalization of fiscal incentives to industrial development

(a) Consideration of the draft Central American Agreement on Fiscal Incentives to Industrial Development

*Documents:*

*Nota de la secretaria sobre la Tercera Reunión Extraordinaria del Comité de Cooperación Económica del Istmo Centroamericano* (E/CN.12/CCE/255)

*Informe de la Reunión de Consulta celebrada por los Gobiernos Centroamericanos del 16 al 21 de julio de 1962* (E/CN.12/CCE/253/Rev.1)

Draft Central American Agreement on Fiscal Incentives to Industrial Development (E/CN.12/657-E/CN.12/CCE/258/Rev.1)

*Informes de las reuniones celebradas por el Grupo de Trabajo sobre Equiparación de Incentivos Fiscales al Desarrollo Industrial* (E/CN.12/CCE/238/Rev.1, E/CN.12/CCE/244/Rev.1, E/CN.12/CCE/249/Rev.1)

*Reference documents:*

*Notas de la secretaria sobre la Equiparación de Incentivos Fiscales al Desarrollo Industrial* (E/CN.12/CCE/237, E/CN.12/CCE/243)

*Leyes de Fomento Industrial de Centroamérica* (E/CN.12/CCE/235-TAO/LAT/29)

7. Date and place of the eighth session
8. Consideration and adoption of the report of the Rapporteur
9. Closing meeting

C. SUMMARY OF PROCEEDINGS

1. Accession of Costa Rica to the Central American Common Market

(a) General Treaty and Central American Bank for Economic Integration

In the course of the session, Costa Rica acceded to those instruments establishing the Central American Common Market to which it had not originally been a party. At the opening meeting, the Government of Costa Rica signed the instruments of accession to the General Treaty on Central American Economic Integration and to the Agreement establishing the Central American Bank for Economic Integration.<sup>1</sup> In addition, as a result of negotiations in the Committee, it acceded to the Protocol on the Equalization of Import Duties and Charges signed at Managua by the other four Central American countries. Costa Rica thus became a party to all the Central American agreements on economic integration, as it had previously signed the Multilateral Treaty on Free Trade and Central American Economic Integration, the Central American Agreement on the Equalization of Import Duties and Charges, the Agreement on the Régime for Central American Integration Industries, and other agreements concluded by the Central American countries.

The instruments signed at the third special session by Costa Rica, which set out the particulars of its membership in the Common Market, include the necessary commitments to negotiate with the other Central American countries concerning the schedules of goods subject to the special régimes of exemption from total free-trade treatment as referred to in article IV of the General Treaty. The Government of Costa Rica has thus undertaken to begin the relevant negotiations with the other member States and to pursue them without interruption until the requisite protocol has been signed between them. Both instruments—that of Costa Rica's accession to the General Treaty and the supplementary protocol to be signed by the five Governments—will enter into force as from the date on which the latter comes into effect.

The instrument by which Costa Rica accedes to the agreement establishing the Central American Bank for Economic Integration will enter into force on the date on which Costa Rica's ratification is deposited.

His Excellency, Mr. Francisco J. Orlich, President of the Republic of Costa Rica, was present at the act of accession. He pointed out that his Government was thus honouring its pledge to Costa Rica that the country would continue to participate fully in the regional Economic Integration Programme.

The Government of Costa Rica, through the Minister for Economic and Financial Affairs, stressed that economic integration must continue to make further progress through increasingly flexible and efficacious means and that the problems of regional development required an increasingly Central American rather than a purely national approach.

On behalf of the other delegations, the Minister for Economic Affairs of the Republic of Nicaragua, speaking as the Chairman of the Committee, stressed the vital importance of the solemn act with which the third special session of the Committee had been inaugurated.

(b) Special trade régimes

The accession of Costa Rica to the Managua treaties will not be fully effective until Costa Rica and each of

<sup>1</sup> See Annex A.



the other member States have decided on the interim régimes of exemption from free-trade treatment provided for in article IV of the General Treaty. These régimes are negotiated bilaterally by the individual countries and are endorsed at the multilateral level. The Committee decided to expedite this process so that Costa Rica's accession might be made fully effective as quickly as possible. To this end, negotiations were begun during the third special session, and schedules of the goods to be subject to the régimes in question were exchanged. These negotiations were to be pursued after the session so that the relevant multilateral agreement might be established by October 1962. The Committee also decided that the resulting draft protocol should be considered by the Governments, and if possible signed by them, at a special session to be held during the second half of October 1962. These various decisions were embodied in resolution 109 (CCE), "Accession of Costa Rica to the Central American Common Market".

(c) *Accession of Costa Rica to the Managua Protocol on tariff equalization*

The Government of Costa Rica informed the Committee during the session of its decision to accede as soon as possible to the Protocol on tariff equalization signed at Managua by the Governments of Guatemala, Honduras, El Salvador and Nicaragua. The intention of the Government of Costa Rica was to adopt in their entirety the uniform levels previously agreed upon by the member countries, as well as all the provisions of the Protocol. In so far as the progressive equalization of duties and charges was concerned, the initial tariffs and the tariffs applicable in each year of the interim period had to be established for Costa Rica, and the negotiations for this purpose were conducted in the course of the session. The tariff items for which immediate equalization had been agreed upon by the other countries but which Costa Rica wished to adopt progressively were also negotiated. As a result of these efforts, the Committee decided to recommend to the Governments for their signature the protocol formulated in the course of the session. Altogether, Costa Rica adopted for progressive equalization nineteen of the tariff items for which immediate equalization had previously been decided on. On the other hand, seventeen of the items for which progressive equalization had been agreed upon by the other Contracting Parties were adopted for immediate equalization by Costa Rica. The interim periods for Costa Rica will begin on the same date as was agreed upon by the other member States in the Managua Protocol.

The protocol formulated by the Committee appears as annex B to the present report. Resolution 110 (CCE), "Accession of Costa Rica to the Managua Protocol on Tariff Equalization", was adopted by the Committee.

## 2. *Equalization of tariffs*

The documents available for the study of this item included the report of the Meeting of Consultation, the draft protocol which it had formulated, the schedules negotiated since the tenth session of the Trade Subcommittee, and studies prepared by the ECLA secre-

tariat on equalization items for which additional data were necessary.

The Committee considered 632 tariff items, for 603 of which uniform tariff levels were agreed upon. Of these, 524 were adopted for immediate equalization and seventy-nine for equalization on a progressive basis.

The Protocol on tariff equalization prepared by the Committee at the third special session—the "San José Protocol" and recommended by it to the Governments for their signature, contains, in addition to the usual general provisions, a chapter on milk products, another on unfair trade practices and a third on amendments to the Managua Protocol.

In the chapter on milk products, a system of import quotas for powdered milk is established. These quotas are designed to ensure that Central American production together with imports will completely satisfy the demand for powdered milk in the markets of each of the member countries. The quotas are determined on the basis of the commercial consumption in each country; imports of goods intended for aid and welfare programmes are disregarded. Consequently, Governments will be able to import or to authorize the importation of powdered milk for non-commercial purposes without any regard for the quota fixed for the individual country. The quotas are non-cumulative and must be taken up within the periods for which they are authorized. Provision is made for adjustment procedures to cope with production shortages and to safeguard consumer interests. It was for this reason that the Committee decided to include in the Agreement a provision that the Executive Council will continue to establish import quotas even when the Central American output becomes sufficient to meet the total demand of the regional market. These quotas may not exceed 15 per cent of each country's commercial consumption of powdered milk.

The Committee considered what measures would be required to control unfair trade practices in respect of goods imported from outside the area that would be prejudicial to the interests of Central American production. Special attention was devoted to the question of goods imported at prices lower than their normal value, and to export subsidies. It was decided that in such cases the Executive Council would give a ruling in accordance with the principles and definitions established in the General Treaty on Economic Integration. If unfair trade practices were shown to exist, the Executive Council would fix the appropriate penalties, and its decisions would be binding on all member countries.

The chapter on amendments to the tariff items agreed upon in the Managua Protocol does nothing more than effect a change in the progressive system applicable to three tariff items and in the level agreed upon for one of these.

The delegation of Nicaragua pointed out that the tariffs for machinery, equipment and capital goods had been equalized at relatively low levels. In its opinion, higher duties than those agreed upon should be assigned to capital goods in the Uniform Central American Import tariff. This would provide the Central American area as a whole with a valuable instrument for the

subsequent formulation of a Central American trade policy in relation to other countries or groups of countries having a higher level of development.

The delegation of Costa Rica requested that the present report should record its decision to propose, at the earliest opportunity, the renegotiation of the uniform duties that had been decided upon in the Agreement on the Equalization of Import Duties and Charges, signed at San José, Costa Rica, in 1959; the renegotiation would affect the following tariff items:

- 081-09-01 Animal feeds mixed with chemical and biological products such as bone meal, dried blood, etc.
- 081-09-02 Food wastes and prepared animal feeds, n.e.s.
- 099-09-03 Yeasts and leavens of all kinds, in any form, except those for pharmaceutical use and enzymes.

The delegation of Costa Rica further noted for the record that for want of sufficient data on which to base a decision, it was unable to raise the initial tariff for cement at the present time, but that it offered to increase it in the future should such a step prove feasible when the necessary studies and research had been carried out.

During the discussion of equalization problems, several delegations pointed out that sufficiently flexible procedures for altering the uniform duties when that became necessary did not yet exist and would have to be devised.

As a result of the negotiations conducted during the third special session, the Uniform Central American Import Tariff is virtually complete. Thus, since the signing of the basic equalization agreement, 1,200 tariff items, representing 95 per cent of the entire tariff have been equalized. Equalization is still pending in respect of only fifty-six tariff items, and in the San José Protocol the Central American Governments have undertaken to equalize these not later than one year from the date on which that Protocol comes into force. Most of the items still pending are those for which equalization presents the greatest difficulties, and detailed technical and economic studies will have to be carried out before the uniform duties that will meet these difficulties can be decided upon. These items include electric light bulbs, which the Committee discussed at length without reaching any agreement on the tariff level that might be established. The delegation of El Salvador pointed out that the industry in question was important for the development of Central America. It stressed that the Central American Governments should establish special provisions relating to trade in these items during the industry's initial phase of development and to the gradual manufacture in Central America of components which in the beginning would have to be imported.

The protocol on equalization formulated during the session is reproduced as annex C of this report. Resolution 111 (CCE), "Protocol to the Agreement on the Equalization of Import Duties and Charges (San José Protocol)" was adopted by the Committee.

### 3. *Fiscal incentives to industrial development*

In considering this item, the Committee had before it the reports on the three series of meetings of the Working Group and the conclusions of the Meeting of Consultation. The Committee devoted special attention

to those chapters on the Agreement on Fiscal Incentives to Industrial Development which are concerned with regional co-ordination in the application of the Agreement, and to the provisions whereby the benefits enjoyed by industrial enterprises under the development legislation of the various countries would be co-ordinated both from country to country and in relation to the benefits accorded by the Agreement.

With respect to the first point, the Committee agreed that the description and classification of industries should be carried out on a completely Central American basis within a period of not more than seven years from the entry into force of the Agreement. Furthermore, special provisions were included in the Agreement to deal with the difficulties that might arise for industrial enterprises during the period before the Agreement could be applied on a fully regional basis.

The Committee decided that enterprises coming under national development legislation would continue to enjoy the benefits they derived from such legislation, except as regards customs exemptions on building materials. In any case, such enterprises could ask to be reclassified in accordance with the Agreement.

Enterprises which did not opt for reclassification and which would be classified in group C would continue to enjoy the benefits conferred by national legislation, except for the exemption from duty on imports of building materials. Since the exports of these enterprises within the Common Market might work to the disadvantage of enterprises producing the same goods but receiving less favourable benefits, it was provided that such exports would be regarded as subsidized, and therefore subject to the provisions of article XI of the General Treaty.

Another important feature of the Agreement is the provision that the exemptions granted may be modified in the light, firstly, of the employment opportunities afforded by the industrial enterprises and, secondly, of the principle of balanced economic development as between the countries belonging to the Central American Common Market. Because the absorption of manpower is of particular importance to the Central American economies, the Agreement provides that enterprises meeting the requirements for group B may be granted the maximum—i.e., group A—exemptions and be classified in group A if labour represents a substantial percentage of their total production costs, this percentage to be determined by the Permanent Secretariat of the General Treaty on the basis of studies prepared for it by the Central American Research Institute for Industry (ICAITI).

As regards the second point, account was taken of the fact that the situation in the various Central American countries differs with respect to the facilities that can be provided for new industrial investment. The prevailing view in the Committee when this point was discussed was that the principle of balanced economic development, which had been part of the Integration Programme from the outset, should be introduced somewhere in the Agreement. A special transitional article was therefore added enabling Honduras and Nicaragua to extend the period of certain exemptions for industries in groups A and B. It was pointed out,

moreover, in the discussion that the best method of redressing imbalances in the development of the various countries was a regional economic development plan.

Consideration was given to the implications of various proposals for the refunding of import duties on raw materials, containers and semi-processed goods used in the production of articles for export to markets outside Central America. It was decided to include in the Agreement a general provision, applicable to the products of both classified and unclassified enterprises, under which the member States would be allowed to make such refunds without this being construed as an infringement on the equality of benefits being aimed at. There was complete agreement in the Committee that the adoption of this provision would not introduce any bias into the interpretation of those articles of the General Treaty relating to export subsidies and to unfair trade practices within the Central American region.

With respect to the chapter of the Agreement providing that the Contracting Parties shall sign a special protocol on assembly plants, the delegation of Costa Rica asked that the report should mention the Committee's view that the fiscal advantages granted under national laws to assembly plants before the entry into force of the Agreement should remain in force and should not be affected by the provisions of the final paragraph of the seventh transitional article.

With respect to article 47, the Committee considered that the regulations for the application of the Agreement should be agreed upon through multilateral negotiations and should be adopted by each of the Contracting Parties in conformity with its legal and constitutional procedures. The delegation of Honduras expressed the view that the regulations should be the subject of an additional protocol signed by the Contracting Parties to the Agreement.

The delegation of Guatemala asked that the report should record its proposal for the inclusion in the Agreement of a provision that 2 per cent of the exempted duties should be allocated to a fund for the support of national centres for industrial productivity. The proposal was not adopted.

Exemptions applicable to enterprises manufacturing pharmaceutical and medicinal preparations were regarded as constituting a special case. Consideration was given to a proposal for exempting such enterprises, both present and prospective from the payment of duties on raw materials, machinery and equipment, semi-processed goods and fuel for a period of ten years. The Committee decided not to act on this proposal, as it did not have sufficient information concerning it. However, the economic and social importance of such enterprises was recognized, and it was decided to include in the Agreement an undertaking by the Contracting Parties to sign a protocol on the subject after it had been considered at the Committee's next session. For this purpose the Ministers for Economic Affairs, in their capacity as members of the Board of Directors of ICAITI, recommended that that body should undertake the technical studies required for drafting such a protocol.

In concluding its examination of the Agreement on Fiscal Incentives, the Committee decided to recommend

that in granting fiscal benefits under their national legislation between the date of the signing of the Agreement and the date of its entry into force, the Governments should endeavour to bring these benefits into line with the provisions of the Agreement, especially as regards the amount and period of exemptions.

The text as approved by the Committee provides for fiscal benefits broader than those contained in the draft Agreement. When this point was discussed, various representatives expressed the view that such benefits should lead to lower prices for the consumer and to higher wages in the industries receiving the benefits.

The Agreement as approved by the Committee appears as annex D of this report. The following resolutions were adopted: 112 (CCE), "Central American Agreement on Fiscal Incentives"; 113 (CCE) "Granting of fiscal incentives under national legislation"; and 114 (CCE) "Fiscal incentives to enterprises engaged in the manufacture of pharmaceutical and medicinal preparations".

#### 4. *Trade restrictions*

With a view to ensuring normal competition in the Common Market and preventing restrictive trade practices between countries, the Committee considered various ways of debarring activities, agreements or arrangements on the part of industrial or commercial enterprises which would tend to distort or restrict the free trade that the Central American States have accorded one another.

The Committee attached the greatest importance to finding effective means of preventing such practices but considered that the necessary economic studies and research should be carried out first. It therefore decided to ask the Permanent Secretariat of the General Treaty and the ECLA secretariat to undertake such studies and research and to prepare on this subject a draft protocol to the General Treaty.

Resolution 115 (CCE), "Restrictions on intra-Central American trade", was adopted by the Committee.

#### 5. *Other business*

The Government of the Dominican Republic sent the Committee a message expressing its great interest in the work of the session and in the process of Central American integration, and its wish for closer economic ties. The Committee welcomed the message and expressed its concurrence with the Dominican Republic's desire for closer ties.

In concluding the work of the session, the Committee stated that if the technical and economic studies relating to projects for integration industries were concluded in time, it would consider them at its eighth session with a view to preparing a protocol to the Agreement on the Régime for Central American Integration Industries. It therefore asked the Permanent Secretariat of the General Treaty to initiate the necessary action, and asked the ECLA secretariat to assist in preparing the relevant protocol or protocols.

#### 6. *Date and place of the next session*

It was decided to hold the eighth regular session of the Committee at San Salvador during the last quarter

of 1962. Resolution 116 (CCE), "Date and place of the next session", was adopted by the Committee.

### 7. *Votes of thanks*

The Committee expressed its deep appreciation to the Government of Costa Rica for the facilities and assistance made available for the session, to the Chairman of the Committee for his efficient conduct of the proceedings, and to the Rapporteur for his report. The Com-

mittee passed a special vote of confidence and thanks in appreciation of the assistance and effective co-operation given by the secretariat of ECLA in connexion with the work of the third special session and the entire process of Central American integration. It also expressed its gratitude for the work done by the Permanent Secretariat of the General Treaty, and it extended its thanks to the Advanced School of Public Administration for Central America and Panama for the facilities provided for the session.

## Part III

### RESOLUTIONS ADOPTED

- 109 (CCE) Accession of Costa Rica to the Central American Common Market
- 110 (CCE) Accession of Costa Rica to the Managua Protocol on tariff equalization
- 111 (CCE) Protocol to the Agreement on the Equalization of Import Duties and Charges (San José Protocol)
- 112 (CCE) Central American Agreement on Fiscal Incentives
- 113 (CCE) Granting of fiscal incentives under national legislation
- 114 (CCE) Fiscal incentives to enterprises engaged in the manufacture of pharmaceutical and medicinal preparations
- 115 (CCE) Restrictions on intra-Central American trade
- 116 (CCE) Date and place of the next session

#### 109 (CCE) ACCESSION OF COSTA RICA TO THE CENTRAL AMERICAN COMMON MARKET

*Resolution adopted on 30 July 1962*  
(E/CN.12/CCE/278)

*The Central American Economic Co-operation Committee,*

*Considering* that the Republic of Costa Rica, by virtue of the instruments signed by its Government on 23 July 1962, is a party to the General Treaty on Central American Economic Integration and a member of the Central American Bank for Economic Integration,

*Taking into account* the instrument of accession of Costa Rica to the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges signed at Managua on 13 December 1960, and the recommendation in resolution 110 (CCE) that the Governments should sign that instrument,

*Congratulates* the Government of the Republic of Costa Rica on its supremely significant and historic decision to accede to the treaties establishing the Common Market, and expresses its deep satisfaction that the scope of regional economic integration has as a result been enlarged to include the whole of Central America,

*Declares* its firm intention of initiating forthwith the measures necessitated by the accession of Costa Rica

to the General Treaty and of completing them as soon as possible,

#### *Decides:*

1. To initiate, in the course of this third special session, the bilateral negotiations required for drawing up the schedules of goods which will be subject to interim régimes of exemption from free-trade treatment, as between Costa Rica and each of the other member States, and to pursue these negotiations without interruption until the schedules are agreed upon at the multilateral level and have been embodied in a protocol to be submitted to the Central American Governments for their consideration and signature;

2. To recommend to the Governments that a consultative meeting of government officials should be held during the first week of October 1962 in order to conduct the first multilateral negotiation of the schedules of goods subject to interim régimes of exemption from free-trade treatment as between Costa Rica and each of the other Central American countries, so that the protocol in which these régimes are to be embodied may be signed by the five Governments during the latter part of October 1962.

#### 110 (CCE) ACCESSION OF COSTA RICA TO THE MANAGUA PROTOCOL ON TARIFF EQUALIZATION

*Resolution adopted on 30 July 1962*  
(E/CN.12/CCE/273)

*The Central American Economic Co-operation Committee,*

#### *Considering:*

(a) That the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, signed at Managua on 13 December 1960, is open for accession by any Central American State which is a Party to the Agreement,

(b) That Costa Rica signed the Agreement on 1 September 1959,

(c) That during this third special session the Committee has discussed and agreed upon the procedures for effecting such accession,

*Decides* to recommend that, on the occasion of this third special session of the Central American Economic Co-operation Committee, the representatives of the

member States, being vested with the corresponding full powers, should sign in the city of San José, Costa Rica, the instrument of accession of Costa Rica to the Managua Protocol on tariff equalization.

111 (CCE) PROTOCOL TO THE AGREEMENT ON THE  
EQUALIZATION OF IMPORT DUTIES AND CHARGES  
(SAN JOSÉ PROTOCOL)

*Resolution adopted on 30 July 1962*  
(E/CN.12/CCE/280)

*The Central American Economic Co-operation Committee,*

*Considering:*

(a) That by virtue of article I of the Central American Agreement on the Equalization of Import Duties and Charges and article II of the General Treaty on Central American Economic Integration, the Central American States have undertaken to set up a uniform import tariff consistent with the integration and economic development of Central America,

(b) That the free-trade régime provided for in the General Treaty on Central American Economic Integration has been in force since June 1961,

(c) That it is necessary to bring the Common Market into full operation and thus promote the development of Central America and the expansion of intra-Central American trade,

*Taking into account* the proceedings of the Central American Trade Sub-Committee at its tenth, eleventh and twelfth sessions, and the accomplishments of the Meeting of Consultation held before the present session was convened,

*Decides* to recommend that, on the occasion of this third special session of the Central American Economic Co-operation Committee, the representatives of the member States, being vested with the corresponding full powers, should sign in the city of San José, Costa Rica, the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges (the San José Protocol).

112 (CCE) CENTRAL AMERICAN AGREEMENT ON  
FISCAL INCENTIVES

*Resolution adopted on 30 July 1962*  
(E/CN.12/CCE/281)

*The Central American Economic Co-operation Committee,*

*Considering* that the concept of balanced economic development as embodied in the Central American Common Market makes it imperative to ensure equality of fiscal benefits to encourage industrial growth, so that industrial investment may be effected with due regard for the real economic situation of the various countries,

*Taking into account* the achievements of the Working Group set up by the Committee under resolution 85 (CCE) to deal with this matter, the accomplishments of the Meeting of Consultation and the text of the relevant draft formulated in compliance with article XIX of the General Treaty on Central American Economic Integration,

*Decides* to recommend that, on the occasion of this third special session of the Central American Economic Co-operation Committee, the representatives of the Governments, being vested with the corresponding full powers, should sign in the city of San José, Costa Rica, the Central American Agreement on Fiscal Incentives to Industrial Development emanating from the present session.

113 (CCE) GRANTING OF FISCAL INCENTIVES UNDER  
NATIONAL LEGISLATION

*Resolution adopted on 30 July 1962*  
(E/CN.12/CCE/282)

*The Central American Economic Co-operation Committee,*

*Taking into account* the Central American Agreement on Fiscal Incentives to Industrial Development, which, in resolution 112 (CCE), the Governments are recommended to sign,

*Considering* that the basic objectives of the Agreement are to establish conditions of equality among the member countries with regard to the fiscal benefits which will in future be granted to manufacturing industries, and to co-ordinate and harmonize among those countries the benefits which have already been granted under national legislation on industrial development,

*Decides* to recommend that until the Central American Agreement on Fiscal Incentives enters into force, the Governments should, in applying their national legislation, endeavour to conform to the provisions of the Agreement, especially as regards the amount and period of the benefits granted.

114 (CCE) FISCAL INCENTIVES TO ENTERPRISES  
ENGAGED IN THE MANUFACTURE OF PHARMACEUTICAL  
AND MEDICINAL PREPARATIONS

*Resolution adopted on 30 July 1962*  
(E/CN.12/CCE/283)

*The Central American Economic Co-operation Committee,*

*Considering:*

(a) That it is in the interests of Central America to possess industries for the manufacture of pharmaceutical and medicinal preparations, such industries to be established on a sound economic basis which would ensure for their production a high value-added factor,

(b) That the establishment of such industries would make it possible to provide the Central American Common Market with a product of reasonable quality and price, to raise the level of skill of the labour force of the member countries and to draw increasingly on the region's natural resources,

(c) That in the Central American Agreement on Fiscal Incentives to Industrial Development the Contracting States have undertaken to sign a protocol specifying the régime of fiscal incentives that will apply to enterprises manufacturing pharmaceutical and medicinal preparations,

*Decides:*

1. To request the Central American Research Institute for Industry (ICAITI) to carry out the necessary technical studies and indicate the various items that should be included in a protocol embodying the régime and procedures for fiscal incentives applicable in the member countries to enterprises manufacturing pharmaceuticals and medicinal preparations;

2. To consider the relevant draft protocol at the Committee's eighth session in the light of the technical studies carried out by ICAITI with a view to its signature by the Governments on that occasion.

115 (CCE) RESTRICTIONS ON INTRA-CENTRAL AMERICAN TRADE

*Resolution adopted on 30 July 1962  
(E/CN.12/CCE/284)*

*The Central American Economic Co-operation Committee,*

*Considering that practices, agreements or arrangements among commercial or industrial enterprises which tend to limit competition or to restrict trade among the*

Central American countries are contrary to the purposes of the Economic Integration Programme,

*Decides to request the Permanent Secretariat of the General Treaty and the secretariat of ECLA to undertake the necessary studies and research for the formulation of a draft protocol to the General Treaty that will define the situations that constitute practices in restraint of competition, will recommend the penalties and measures applicable in such cases, and will indicate what other provisions on the subject could be adopted at the regional level.*

116 (CCE) DATE AND PLACE OF THE NEXT SESSION

*Resolution adopted on 30 July 1962  
(E/CN.12/CCE/285)*

*The Central American Economic Co-operation Committee*

*Decides to thank the Government of El Salvador for its invitation to hold the Committee's eighth session, which is to take place during the last quarter of 1962, in the city of San Salvador, and to ask the ECLA secretariat, in consultation with the Governments, to set the date of the session.*

## ANNEXES

- A. *Instruments of accession of Costa Rica to the General Treaty on Central American Economic Integration and to the Agreement Establishing the Central American Bank for Economic Integration*
- B. *Protocol of Accession of Costa Rica to the Protocol on the Equalization of Import Duties and Charges (Managua Protocol)*
- C. *Protocol to the Central American Agreement on the Equalization of Import Duties and Charges*
- D. *Central American Agreement on Fiscal Incentives to Industrial Development*

### Annex A

#### INSTRUMENTS OF ACCESSION OF COSTA RICA TO THE GENERAL TREATY ON CENTRAL AMERICAN ECONOMIC INTEGRATION AND TO THE AGREEMENT ESTABLISHING THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

##### ACCESSION OF COSTA RICA TO THE GENERAL TREATY ON CENTRAL AMERICAN ECONOMIC INTEGRATION

*The Government of the Republic of Costa Rica,*

*Believing that the economic integration of the Central American countries constitutes the most efficacious means of promoting the future development of the area as a whole and of each individual country, and of raising the standard of living of their peoples,*

*Considering that Costa Rica has participated, along with the other Central American Governments, in the activities that have been pursued since 1951 with a view to the achievement of economic integration, and to this end has signed the Multilateral Treaty on Free Trade and Central American Economic Integration, the Agreement on the Régime for Central American Integration Industries and the Central American Agreement on the Equalization of Import Duties and Charges,*

*Bearing in mind that under the terms of its article XXXIII, the General Treaty on Central American Economic Integration remains open for accession by any Central American State not originally a party thereto,*

*Has decided as follows:*

##### *Article I*

*The Government of Costa Rica hereby accedes to the General Treaty on Central American Economic Integration, signed on 13 December 1960 by the Governments of Guatemala, El Salvador, Honduras and Nicaragua.*

##### *Article II*

*The Government of Costa Rica shall establish by agreement with the other member States the schedules of goods which will*

be subject to the special régimes of exemption from free-trade treatment referred to in article IV of the General Treaty.

### *Article III*

In order to give effect to the provisions of article II, the Government of Costa Rica shall initiate the relevant negotiations with the other States parties to the General Treaty and shall pursue them without interruption until the necessary protocol has been signed in conjunction with those States establishing, in respect of Costa Rica, the schedules of goods, by pairs of countries, which are to be incorporated in annex A to the General Treaty, together with the trade régime applicable to such goods.

### *Article IV*

This instrument shall be submitted for ratification in conformity with the constitutional and legal procedures in force in Costa Rica. It shall enter into force on the same date as the protocol referred to in article III, on condition that the corresponding instrument of ratification has been deposited with the General Secretariat of the Organization of Central American States.

IN WITNESS WHEREOF, the Minister for Economic and Financial Affairs of the Republic of Costa Rica, being vested with full powers, hereby signs this instrument in the city of San José, capital of the Republic of Costa Rica, on 23 July 1962.

*For the Government of Costa Rica:*

RAÚL HESS ESTRADA,  
*Minister for Economic and Financial Affairs*

## ACCESSION OF COSTA RICA TO THE AGREEMENT ESTABLISHING THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

*The Government of the Republic of Costa Rica,*

*Bearing in mind* that, under the terms of its article 35, the Agreement Establishing the Central American Bank for Economic Integration is open for accession by the Republic of Costa Rica,

*Has decided* as follows:

### *Article I*

The Government of Costa Rica hereby accedes to the Agreement Establishing the Central American Bank for Economic Integration, signed by the Governments of Guatemala, El Salvador, Honduras and Nicaragua on 13 December 1960.

### *Article II*

This instrument shall be submitted for ratification in conformity with the constitutional and legal procedures in force in Costa Rica, and shall enter into force on the date of deposit of the corresponding instrument of ratification with the General Secretariat of the Organization of Central American States.

IN WITNESS WHEREOF, the Minister for Economic and Financial Affairs of the Republic of Costa Rica, being vested with full powers, hereby signs this instrument in the city of San José, capital of the Republic of Costa Rica, on 23 July 1962.

*For the Government of Costa Rica:*

RAÚL HESS ESTRADA,  
*Minister for Economic and Financial Affairs*

## Annex B

## PROTOCOL OF ACCESSION OF COSTA RICA TO THE PROTOCOL ON THE EQUALIZATION OF IMPORT DUTIES AND CHARGES, SIGNED AT MANAGUA ON 13 DECEMBER 1960

*The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,*

*Bearing in mind* that the Government of the Republic of Costa Rica is a party to the Central American Agreement on the Equalization of Import Duties and Charges,

*Considering* that the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, signed at Managua on 13 December 1960, is as provided in article VIII of the said Protocol, open to accession by any Central American State that is a party to the Agreement,

*Have decided* to draw up the present Protocol, and for that purpose have appointed as their respective plenipotentiaries:

His Excellency the President of the Republic of Guatemala:  
Mr. Jorge L. Caballeros, Minister for Economic Affairs, and  
Mr. Julio Prado García Salas, Minister for Central American Integration;

His Excellency the President of the Republic of El Salvador:  
Mr. Salvador Jáuregui, Minister for Economic Affairs;

His Excellency the President of the Republic of Honduras:  
Mr. Juan Bueso Arias, Minister for Economic and Financial Affairs;

His Excellency the President of the Republic of Nicaragua:  
Mr. Juan José Lugo Marengo, Minister for Economic Affairs, and  
Mr. Gustavo A. Guerrero, Deputy Minister for Economic Affairs;

His Excellency the President of the Republic of Costa Rica:  
Mr. Raúl Hess Estrada, Minister for Economic and Financial Affairs,

Who, having exchanged their respective full powers, found in good and due form, have agreed as follows:

### *Article I*

In conformity with the procedures set out in the following articles, Costa Rica, as a Party to the present instrument, adopts all the provisions of the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges and the annexes thereto, signed at Managua on 13 December 1960 by Guatemala, El Salvador, Honduras and Nicaragua, and hereinafter called the Managua Protocol.

### *Article II*

Costa Rica adopts forthwith the tariffs and tariff descriptions specified in schedule A of the Managua Protocol, with the exception of the tariff items to be adopted by Costa Rica on a progressive basis as provided in annex 1 to the present Protocol, which forms an integral part hereof.

### *Article III*

Costa Rica adopts the uniform duties specified in schedule B, column I, of the Managua Protocol, and the tariff descriptions set out in said schedule.

### *Article IV*

The initial tariffs for Costa Rica specified in annex 2 shall be added to schedule B, column III, of the Managua Protocol.

### *Article V*

The tariffs to be applied by Costa Rica during the interim period and specified in annex 3 shall be added to schedule B of the Managua Protocol as annex 5.

### *Article VI*

This Protocol shall be submitted for ratification in each State



in conformity with its respective constitutional or legislative procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States. This Protocol shall enter into force in the case of the first three States to ratify it, eight days after the date of deposit of the third instrument of ratification, and, in the case of States which ratify it subsequently, on the date of deposit of the relevant instrument.

#### Article VII

The General Secretariat of the Organization of Central American States shall act as depository of this Protocol and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States and to the Permanent Secretariat of the General Treaty, notifying them likewise of the deposit of each instrument of ratification. Upon the entry into force of the Protocol, it shall also transmit a certified copy thereof to the Secretariat of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

#### Article VIII

The duration of the present Protocol shall be contingent upon that of the Central American Agreement on the Equalization of Import Duties and Charges.

IN WITNESS WHEREOF, the respective plenipotentiaries have

signed the present Protocol in the city of San José, capital of the Republic of Costa Rica, on 31 July 1962.

*For the Government of Guatemala:*

Jorge L. CABALLEROS,  
*Minister for Economic Affairs*

Julio Prado GARCÍA SALAS,  
*Minister for Central American Integration*

*For the Government of El Salvador:*

Salvador JÁUREGUI,  
*Minister for Economic Affairs*

*For the Government of Honduras:*

Jorge BUESO ARIAS,  
*Minister for Economic and Financial Affairs*

*For the Government of Nicaragua:*

Juan José LUGO MARENCO,  
*Minister for Economic Affairs*

Gustavo A. GUERRERO,  
*Deputy Minister for Economic Affairs*

*For the Government of Costa Rica:*

Raúl HESS ESTRADA,  
*Minister for Economic and Financial Affairs*

NOTE: Annexes 1, 2 and 3 to this Protocol are for limited distribution only.

#### Annex C

### PROTOCOL TO THE CENTRAL AMERICAN AGREEMENT ON THE EQUALIZATION OF IMPORT DUTIES AND CHARGES

*The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,*

*By virtue of the commitments assumed under article I of the Central American Agreement on the Equalization of Import Duties and Charges, signed at San José, Costa Rica, on 1 September 1959; under article II of the General Treaty on Central American Economic Integration, signed at Managua on 13 December 1960; and under the first provisional article of the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, signed at Managua on 13 December 1960,*

*Bearing in mind that on 4 June 1961 the General Treaty on Central American Economic Integration entered into force and the Central American Free Trade Area was established,*

*Considering that it is a matter of urgency to complete the uniform import tariff in order to bring the Central American Common Market into full operation,*

*Have decided to draw up the present Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, and for that purpose have appointed as their respective plenipotentiaries:*

His Excellency the President of the Republic of Guatemala:  
Mr. Jorge L. Caballeros, Minister for Economic Affairs, and  
Mr. Julio Prado García Salas, Minister for Central American Integration;

His Excellency the President of the Republic of El Salvador:  
Mr. Salvador Jáuregui, Minister for Economic Affairs;

His Excellency the President of the Republic of Honduras:  
Mr. Jorge Bueso Arias, Minister for Economic and Financial Affairs;

His Excellency the President of the Republic of Nicaragua:  
Mr. Juan José Lugo Marengo, Minister for Economic Affairs,

and Mr. Gustavo A. Guerrero, Deputy Minister for Economic Affairs;

His Excellency the President of the Republic of Costa Rica:  
Mr. Raúl Hess Estrada, Minister for Economic and Financial Affairs,

Who, having exchanged their respective full powers, found in good and due form, have agreed as follows:

#### Chapter I

#### EQUALIZATION OF IMPORT DUTIES AND CHARGES

##### Article I

The Contracting States agree, in accordance with article IX of the Central American Agreement on the Equalization of Import Duties and Charges, to expand schedules A and B of the said Agreement by means of this Protocol.

##### Article II

The Contracting Parties shall adopt forthwith the tariffs and tariff descriptions specified in the annexed schedule A, which forms an integral part of this Protocol.

##### Article III

In conformity with the interim system of progressive tariff equalization established by virtue of article XIV of the Central American Agreement on the Equalization of Import Duties and Charges, the Contracting Parties agree to adopt, for the goods included in schedule B of this Protocol, the uniform duties specified in column I of said schedule, each Party conforming to the time limit (column II), to the initial tariffs (column III) and to the tariff descriptions set out in that schedule.



The tariffs to be applied by each of the Contracting Parties during each year of the interim period are set forth in annexes 1 to 5 of schedule B.

Schedule B and its annexes 1 to 5 form an integral part of this Protocol.

## Chapter II

### SPECIAL PROVISIONS RELATING TO MILK PRODUCTS

#### Article IV

Powdered milk produced in any of the Contracting States shall benefit, as between all of them, from the régime of immediate free-trade treatment provided for in the General Treaty on Central American Economic Integration, and shall consequently be exempt from import and export duties and all other taxes, dues and charges levied on imports and exports among the Contracting States.

#### Article V

The Contracting States agree to establish a system of import quotas for powdered milk as described in tariff items 022-02-01-01, 022-02-01-02 and 022-02-02-01 of schedule B of this Protocol coming from outside countries. The Executive Council of the General Treaty on Central American Economic Integration shall determine the quotas in such a way as to ensure that Central American production plus the amount of authorized imports will completely satisfy the existing demand for powdered milk in the markets of the member countries.

Even when Central American production becomes sufficient to meet the total demand, the Executive Council shall continue to establish import quotas in order to safeguard consumer interests and encourage competition in the milk products market. These quotas may not exceed 15 per cent of each country's total commercial consumption of powdered milk.

Within the quotas established by the Council, each Government shall be free to decide whether or not all or part of the corresponding imports shall be permitted.

#### Article VI

The amount of the quotas referred to in article V shall be determined by the Executive Council each year. The quotas established for the first year shall take effect ninety days after this Protocol comes into force.

The Council shall revise the quotas every six months in the light of production and consumption trends and other supply and market factors. It may also make whatever adjustments in the annual quotas necessary to offset production deficiencies or any other factor jeopardizing or likely to jeopardize the supply situation of the member countries.

#### Article VII

The import quotas fixed by the Executive Council shall be applicable only within the period for which they were established and may not be carried over to subsequent periods.

#### Article VIII

Where the Executive Council has not fixed the quotas for a particular year, the Governments may authorize imports commensurate with the quota established for the preceding year. Once the Council has established the quota in question, the Governments may authorize only such additional quantities as come within the limit of the new quota.

#### Article IX

The Governments shall not import nor authorize the importation, for commercial purposes, of powdered milk from outside countries in excess of the quotas established for each Contracting State under this chapter. The said imports shall be subject to the uniform Central American duties agreed upon in this Protocol.

#### Article X

The Executive Council shall submit for approval to the Executive Power of each country proposals for the adoption of import regulations concerning other types of processed milk from outside countries, when this appears to the Council to be necessary in order to safeguard consumer and production interests and the Central American supply situation.

#### Article XI

The Governments shall furnish the Permanent Secretariat of the General Treaty on Central American Economic Integration with all the data required for compliance with the provisions of this chapter, including data on duty-free imports of processed milk.

## Chapter III

### PROVISIONS RELATING TO UNFAIR TRADE PRACTICES

#### Article XII

The Contracting Parties shall, in respect of goods from outside the area, adopt such measures as may be necessary to control trade practices which are or may be prejudicial to the interests of Central American production, with particular regard to the importation of goods at a price below their normal value and to export subsidies.

#### Article XIII

Where any member Government considers that multilateral action is required because of a situation which, in its opinion, constitutes an unfair trade practice, it shall bring such situation to the attention of the Executive Council. The Council shall give a ruling in accordance with the relevant definitions and criteria set out in the General Treaty on Central American Economic Integration with respect to intra-Central American trade.

#### Article XIV

If the practices referred to in this chapter are found to exist, a penalty of \$100 per gross kilogramme and 100 per cent *ad valorem* shall, by decision of the Executive Council, be imposed on the consignee of the goods concerned, without prejudice to any other measure decided upon by the Council. The decision of the Council shall be binding on the five member countries. The penalty shall be applied by the Government of the country where the imports were affected and by that of any other Central American country into which the same goods are imported. The penalty shall remain in force as long as the situation or trade practice by reason of which it was imposed subsists, and it shall be suspended by decision of the Executive Council.

## Chapter IV

### AMENDMENTS TO THE SCHEDULES ANNEXED TO THE MANAGUA PROTOCOL ON TARIFF EQUALIZATION

#### Article XV

In conformity with article XII of the Central American Agreement on the Equalization of Import Duties and Charges, the Contracting States agree to amend schedules A and B and the annexes thereto of the Protocol, signed at Managua on 13 December 1960, to the said Agreement in the manner set out in the appendix to the present Protocol, which forms an integral part hereof. The interim period for the tariff items included in the said appendix shall continue to be reckoned from the date on which the Managua Protocol on tariff equalization came into force.

## Chapter V FINAL PROVISIONS

### Article XVI

This Protocol shall be submitted for ratification in each State in conformity with its respective constitutional or legislative procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States. The Protocol shall enter into force in the case of the first three States to ratify it, eight days after the date of deposit of the third instrument of ratification and, in the case of the States which ratify it subsequently, on the date of deposit of the relevant instrument.

### Article XVII

The General Secretariat of the Organization of Central American States shall act as depository of this Protocol and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States, notifying it likewise of the deposit of each instrument of ratification. Upon the entry into force of the Protocol it shall also transmit a certified copy thereof to the Secretariat of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

### Article XVIII

The duration of the present Protocol shall be contingent upon that of the Central American Agreement on the Equalization of Import Duties and Charges.

### Article XIX

The Contracting Parties agree to sign, not later than one year from the entry into force of the present instrument, such additional protocols as may be needed for the adoption of uniform import duties and charges in respect of the tariff

items which have not yet been equalized as between the member countries.

### Article XX

The Contracting Parties agree to sign, not later than one year from the entry into force of the present instrument, an agreement on uniform tariff legislation that will guarantee the proper application of the Central American import tariff.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed the present Protocol in the city of San José, capital of the Republic of Costa Rica, on 31 July 1962.

*For the Government of Guatemala:*

Jorge L. CABALLEROS,  
*Minister for Economic Affairs*

Julio Prado GARCÍA SALAS,  
*Minister for Central American Integration*

*For the Government of El Salvador:*

Salvador JAUREGUI,  
*Minister for Economic Affairs*

*For the Government of Honduras:*

Jorge BUESO ARIAS,  
*Minister for Economic and Financial Affairs*

*For the Government of Nicaragua:*

Juan José LUGO MARENCO,  
*Minister for Economic Affairs*

Gustavo A. GUERRERO,  
*Deputy Minister for Economic Affairs*

*For the Government of Costa Rica:*

Raúl HESS ESTRADA,  
*Minister for Economic and Financial Affairs*

NOTE: Schedules A and B of this Protocol are for limited distribution only.

## Annex D

### CENTRAL AMERICAN AGREEMENT ON FISCAL INCENTIVES TO INDUSTRIAL DEVELOPMENT

*The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,*

*With a view to stimulating the industrial development of Central America through joint action and thus improving the living conditions and welfare of their peoples,*

*Considering that industrialization contributes substantially to the fulfilment of this aim and ensures a more effective use of the human and material resources of their countries,*

*Being convinced of the need to standardize the provisions on fiscal incentives to industrial development and to co-ordinate their application as between the member countries,*

*In compliance with article XIX of the General Treaty on Central American Economic Integration, signed at Managua, Nicaragua, on 13 December 1960,*

*Have decided to conclude the present Agreement, and for that purpose have appointed as their respective plenipotentiaries:*

His Excellency the President of the Republic of Guatemala:  
Mr. Jorge L. Caballeros, Minister for Economic Affairs, and  
Mr. Julio Prado García Salas, Minister for Central American Integration;

His Excellency the President of the Republic of El Salvador:  
Mr. Salvador Jáuregui, Minister for Economic Affairs;

His Excellency the President of the Republic of Honduras:  
Mr. Jorge Bueso Arias, Minister for Economic and Financial Affairs;

His Excellency the President of the Republic of Nicaragua:  
Mr. Juan José Lugo Marenco, Minister for Economic Affairs, and Mr. Gustavo A. Guerrero, Deputy Minister for Economic Affairs;

His Excellency the President of the Republic of Costa Rica:  
Mr. Raúl Hess Estrada, Minister for Economic and Financial Affairs,

Who, having exchanged their respective full powers, found in good and due form, have agreed as follows:

## Chapter I

### PURPOSES OF THE AGREEMENT

#### Article 1

The Contracting States agree, in conformity with the following provisions, to establish a uniform Central American régime of fiscal incentives to industrial development that will promote the integration and balanced economic development of Central America.

## Chapter II

### APPLICATION

#### Article 2

The régime referred to in the preceding article shall apply to the establishment or expansion of manufacturing industries that contribute effectively to the economic development of Central America.

#### Article 3

The Contracting States shall not grant to manufacturing industries any fiscal benefits differing in nature, amount or duration from those provided for in this Agreement. This provision shall not apply to exemptions from municipal or local taxes.

With the exception of the following activities, which may be governed by national laws or regulations, the Contracting States shall not grant fiscal benefits to productive activities not coming under the provisions of article 2:

- (a) Mining;
- (b) Extraction of petroleum and natural gas;
- (c) Forestry and timber cutting;
- (d) Fishing, fish farming, whaling and allied activities;
- (e) Service industries and activities;
- (f) Agricultural activities;
- (g) Low-cost housing construction. In this case, an exemption from the payment of import duties on building materials may be granted only if Central American substitutes suitable as regards to quality, quantity and price are unavailable.

The foregoing exceptions shall not include any processing of the relevant products that is classified as manufacturing; such processes shall be governed by the provisions of this Agreement.

## Chapter III

### QUALIFYING ENTERPRISES

#### Article 4

The régime of fiscal incentives provided for in this Agreement shall apply to enterprises having industrial plants which, by the use of modern and efficient manufacturing methods for the processing of raw materials and semi-finished goods, produce articles that are necessary for the development of other productive activities or for meeting the basic needs of the population, that replace articles imported on a substantial scale or that increase the volume of exports.

The contribution of such plants to economic development shall also be evaluated on the basis of the value added figures or percentages of the relevant industrial process and the extent to which national or regional raw materials or semi-finished goods and, in general, the natural resources, manpower and capital resources of Central America are used.

## Chapter IV

### CLASSIFICATION OF ENTERPRISES

#### Article 5

Enterprises that fulfil the conditions set out in chapter III shall be classified in group A, B or C as follows:

Group A shall include those enterprises that:

- (a) Produce industrial raw materials or capital goods; or
- (b) Produce consumer goods, containers or semi-finished goods, on condition that at least 50 per cent of the total value of the raw materials, containers or semi-finished goods used are of Central American origin.

Group B shall include those enterprises that:

(a) Produce consumer goods, containers or semi-finished goods;

(b) Bring about a substantial net improvement in the balance of payments and a high value added in the industrial process; and

(c) Use raw materials, containers and semi-finished goods which in terms of value, are wholly or mainly of non-Central American origin.

Group C shall include those enterprises that:

(a) Do not meet the conditions for groups A and B; or

(b) Merely assemble, pack, package, cut or dilute products; or

(c) Form part of the industries specified in annex 1 to this Agreement.

This article shall be applied in conformity with the definitions set out in annex 2 to the Agreement. In the classification of enterprises in group A, item (a), reference shall be made to the schedule of capital goods and industrial raw materials to be prepared for this purpose by the Executive Council of the General Treaty on Central American Economic Integration within thirty days from the date on which this Agreement comes into force.

#### Article 6

Subject to a favourable technical opinion from the Permanent Secretariat of the General Treaty based on studies requested from the Central American Research Institute for Industry, the relevant national administrative authority may classify in group A an enterprise meeting the requirements for group B, and using efficient industrial processes, which expends in direct labour costs a sum representing a high proportion of the total cost of production.

The general procedure prescribed by article 29 of this Agreement shall also apply to any classification order or decree that the national administrative authority may issue on the basis of the present article.

#### Article 7

An industrial enterprise in group A or B shall be classified as a new or existing industry.

An enterprise shall be classified as a new industry:

(a) If it manufactures articles not produced in the country; or

(b) If it manufactures articles that are produced in the country by primitive production methods, and if the new plant fulfils the following two conditions:

(i) It meets a large part of the unsatisfied demand of the domestic market; and

(ii) It introduces radically different technical manufacturing processes that change the structure of the existing industry and bring about increased productivity and lower costs.

In order to determine whether an enterprise meets the requirements enumerated in item (b) and may thus be classified as a new industry, the authorities responsible for the application of the agreement in each country shall request and consider a favourable technical opinion from the Permanent Secretariat of the General Treaty.

Industries not coming under item (a) or (b) shall be classified as existing industries.

## Chapter V

### FISCAL BENEFITS

#### Article 8

The fiscal benefits to be granted in accordance with this Agreement are:

I. Total or partial exemption from customs duties and related charges, including consular dues but not charges for specific services, levied on the importation of the articles listed below, when such articles are essential for the establishment or operation of the enterprises and no suitable Central American substitutes are available:

(a) Machinery and equipment;

(b) Raw materials, semi-finished goods and containers;

(c) Fuels for exclusive use in the industrial process proper, except petrol. No exemption in respect of this item shall be granted to an industrial enterprise for its transport operations, or for the generation of its own power when there is an adequate supply provided by public utility plants.

II. Exemption, for the enterprise and its members, from income and profits taxes on earnings from the qualifying activities. This exemption shall not be granted if the enterprise or its members are subject in other countries to taxes that make the exemption ineffective.

III. Exemption from taxes payable on assets and net worth by the enterprise or by its owners or shareholders in respect of the qualifying activities.

#### *Article 9*

Any enterprise classified in accordance with this Agreement shall be entitled, as long as the Agreement remains in force, to deduct from its profits subject to taxes on income or profits, the sums reinvested in such machinery or equipment as serves to increase the productivity or productive capacity of the enterprise and of the branch of industry in question in the Central American region. The sums reinvested in any year may be deducted only from the profits earned during the same year in the qualifying activities.

#### *Article 10*

Reimbursement by any member State of the amount of duties and charges paid on imports of raw materials, semi-finished goods and containers used in the production of goods exported to countries outside Central America shall be regarded as consistent with the terms of this Agreement.

### **Chapter VI**

## **GRANT OF BENEFITS**

#### *Article 11*

The enterprises classified in group A as new industries shall receive the following benefits:

(a) Total exemption from customs duties and related charges, including consular fees, on imports of machinery and equipment, for ten years;

(b) Exemption from customs duties and related charges, including consular fees, on imports of raw materials, semi-finished goods and containers, as follows: 100 per cent exemption for the first five years, 60 per cent for the next three years and 40 per cent for the next two years;

(c) Total exemption from customs duties and related charges, including consular fees, on imports of fuels for exclusive use in the industrial process, except petrol, for five years;

(d) Total exemption from taxes on income and profits, for eight years;

(e) Total exemption from taxes on assets and net worth, for ten years.

#### *Article 12*

The enterprises classified in group A as existing industries shall receive the following benefits:

(a) Total exemption from customs duties and related charges, including consular fees, on imports of machinery and equipment, for six years;

(b) Total exemption from taxes on income and profits, for two years;

(c) Total exemption from taxes on assets and net worth, for four years.

#### *Article 13*

The enterprises classified in group B as new industries shall receive the following benefits:

(a) Total exemption from customs duties and related charges, including consular fees, on imports of machinery and equipment, for eight years;

(b) Exemption from customs duties and related charges, including consular fees, on imports of raw materials, semi-finished goods and containers, as follows: 100 per cent for the first three years and 50 per cent for the next two years;

(c) Exemption from customs duties and related charges, including consular fees, on imports of fuels for exclusive use in the industrial process, except petrol, as follows: 100 per cent for the first three years and 50 per cent for the next two years;

(d) Total exemption from taxes on income and profits, for six years;

(e) Total exemption from taxes on assets and net worth, for six years.

#### *Article 14*

The enterprises classified in group B as existing industries shall be granted a total exemption from customs duties and related charges, including consular fees, on imports of machinery and equipment, for a period of five years.

#### *Article 15*

The enterprises classified in group C shall be granted a total exemption from customs duties and related charges, including consular fees, on imports of machinery and equipment, for a period of three years.

#### *Article 16*

Classified enterprises which produce industrial raw materials or capital goods and which during the period for which benefits are granted, use, or reach the point where they use, Central American raw materials representing at least 50 per cent of the total value of their raw materials shall be granted the total exemption from the taxes referred to in article 11, items (d) and (e), and article 12, items (b) and (c), for an additional period of two years.

#### *Article 17*

Where a qualifying enterprise proposes to set up a plant in a branch of industry in respect of which other enterprises of the same country have already been granted the fiscal benefits applicable to new industries under this Agreement it shall be entitled to the same benefits in return for complying with the same commitments and obligations, but only for the period that remains before the benefits initially granted are due to terminate.

If the unexpired period referred to in the preceding paragraph is less than the period of the benefits applicable to existing industries, the said enterprise shall, upon the termination of such unexpired period, be granted the benefits applicable to existing industries, but only for the time that remains before such benefits expire as provided in the relevant classification order or decree.

#### *Article 18*

The period of exemption from taxes on income or profits shall be reckoned from the tax year in which the classified enterprise begins production or, if production has already begun, from the tax year in which the classification order or decree enters into force.

The first year of the period of exemption from taxes on assets and net worth shall be the year in which the classification order or decree is published.

#### *Article 19*

The period of exemption from customs duties and related charges shall, in the case of machinery and equipment, be reckoned from the date on which the first importation of any of these goods is effected.

The period of the customs exemptions for raw materials, semi-finished goods, containers and fuels shall be reckoned from the date on which the first importation of any of these goods is effected.

Between the time that a request for classification is submitted and the classification order of decree enters into force, the Contracting States may allow imports of goods entitled to customs exemptions, on condition that the persons concerned guarantee, by means of a security or deposit, the amount of the import duties and charges for which they are liable.

#### *Article 20*

A qualifying enterprise that proposes to invest in the expansion of its industrial plant shall be granted a customs exemption on imports of machinery and equipment, and an exemption from taxes on assets and net worth, in both cases for the amounts and periods specified for the applicable classification group. The exemption from taxes on assets and net worth shall apply only to the additional investment.

### **Chapter VII**

#### **CO-ORDINATION**

#### *Article 21*

The States parties to this Agreement undertake to co-ordinate their efforts in applying it and to take the necessary measures to ensure that the granting of fiscal exemptions will not lead to competitive inequalities which might hamper or distort the process of intra-Central American trade based on economic integration.

#### *Article 22*

This agreement shall be applied at the national level by the competent administrative authority.

#### *Article 23*

In conformity with article XIX of the General Treaty on Central American Economic Integration, the Executive Council shall be the body responsible for co-ordinating the application of this Agreement at the regional level. In fulfilling this function it shall consider and resolve any difficulty or conflict between the Contracting Parties to which the application of the Agreement may give rise.

#### *Article 24*

The application of this Agreement, in so far as the qualifying and classifying of industries is concerned, shall be placed on a wholly Central American basis not later than seven years after the entry into force of the Agreement.

Where the classification of an enterprise has been effected on a wholly Central American basis in conformity with this article, the Governments of the Contracting States may not apply the provisions of article 25.

#### *Article 25*

During the first seven years that this Agreement is in force, enterprises that propose to engage in industries that exist in one or more of the countries, but not in others in the latter countries may be classified at the national level as new industries and be granted the benefits applicable to such industries and to the classification assigned to the industries in the three groups set out in article 5.

#### *Article 26*

Exemptions in respect of imports of raw materials, semi-finished goods and containers which are granted to an enterprise in any member State under this Agreement or under the national legislation, and which affect the existing competitive situation in the Central American Common Market, may be granted, either wholly or in part, in the other countries to enterprises producing the same articles, for the period that remains before such exemptions expire, but only if the following conditions are also fulfilled:

(a) The amount of the import duties on the raw materials, semi-finished goods and containers used represents that proportion of the total cost of production which is the determining factor in the change in the competitive situation; and

(b) A favourable opinion is forthcoming from the Executive Council of the General Treaty to the effect that to grant the exemptions in respect of raw materials, semi-finished goods and containers to the plants in other countries will restore, or tend to restore, the competitive situation that should exist in the Common Market.

The opinion shall be given by the Council at the request of the Government or Governments concerned and shall be based on cost data relating to a given period of actual production and not on estimates contained in production plans. The opinion shall have effect in relation to the State or States requesting it. If it is favourable, the granting of the exemptions shall be optional.

#### *Article 27*

Where a request for the development of an industrial investment project submitted in one country by any enterprise has been rejected by the national administrative authority, and the rejection has been confirmed by the Executive Council, no enterprise may become qualified or be classified in any of the other member States with respect to the same investment project.

#### *Article 28*

If a Contracting State considers that an enterprise has in another of the other countries been classified in a group other than that to which it should belong in accordance with the present Agreement, that State may submit the case to the Executive Council within a period of three months from the date of publication of the classification order or decree. The Executive Council shall determine what classification group should apply to the enterprise and shall communicate its decision to the national administrative authority concerned. That authority shall be required to make the appropriate changes in the said order or decree.

### **Chapter VIII**

#### **PROCEDURES**

#### *Article 29*

Requests for exemptions under this Agreement shall be submitted to the national administrative authority and shall contain at least the following particulars:

(a) Name, address and nationality of the applicant and, in the case of a company, the name of the manager, the type of company and, where applicable, the names of the members of the board of directors;

(b) Amount, composition and origin of the capital, investment plans and proposed production capacity;

(c) Site of the plant;

(d) Description of the products;

(e) Proposed dates on which construction of the plant is to be started and finished and production is to begin;

(f) The raw materials, semi-finished goods, containers, machinery and equipment that the enterprise proposes to import

during the first five years, with or without exemptions, and estimated consumption of such raw materials per unit of output;

(g) Classification requested.

#### Article 30

In addition to the particulars specified in the preceding article, the applicant shall submit to the national administrative authority a technical and economic study containing at least the following information:

(a) The market conditions of the industry in question, especially as regards existing production capacity, present imports and the effects of the additional output on the balance of payments;

(b) Evidence of the adequacy of the investment for the type of industry and enterprise in question;

(c) Labour requirements;

(d) The raw materials that will be used and, if of foreign origin, their source and the possibility of replacing them with materials of Central American origin; also the value added in the industrial process;

(e) Value, quality and type of the installations, machinery and equipment that will be used and, in general, the efficiency of the manufacturing processes that will be employed;

(f) The uses, characteristics and estimated costs and prices of the final product;

(g) The ability of the enterprise to operate economically after the period of the benefits has expired.

#### Article 31

A summary of the application, containing the name of the applicant or title of the firm, a list of the products, the type of industry and the classification requested, shall be published in the Official Gazette and in a newspaper of general circulation. On the basis of such publication, an objection to the classification and to the granting of the benefits requested may be lodged by any individual or body corporate in the cases and according to the procedure laid down in the regulations for the application of this Agreement and in the national legislation.

#### Article 32

The national administrative authority shall evaluate the project to which the request relates. The evaluation, the request and the technical and economic study shall be considered by a national advisory commission. The commission shall submit to the national administrative authority an opinion indicating the classification it considers appropriate for the applicant enterprise.

#### Article 33

The classification order or decree issued by the national administrative authority shall take effect when it has been accepted in writing by the applicant and published in the Official Gazette.

#### Article 34

The classification order or decree shall include the following particulars:

(a) The classification of the enterprise and the products it will manufacture;

(b) The benefits granted, including a list of all the articles, classified according to NAUCA, benefiting from customs exemptions;

(c) The period within which construction of the plant is to be started and finished;

(d) The period within which production is to begin, this period not to exceed two years from the date on which the classification order or decree comes into force, although in

exceptional circumstances it may be extended for not more than three years;

(e) The other obligations of the enterprise.

#### Article 35

The Permanent Secretariat shall make a monthly report to the Governments on the requests which have been submitted and the classification orders and decrees which have been issued. The national administrative authorities shall provide the Permanent Secretariat with the necessary information for this purpose, including information on requests that have been rejected, and shall also provide an annual report of a general nature on the application of the Agreement.

#### Article 36

The fiscal benefits provided for in this Agreement may be granted only to the persons or enterprises that are going to make the industrial investment and not to anyone who is acting merely as an agent.

The said benefits may be transferred to other persons or enterprises, on condition that they meet the same requirements as the initial beneficiaries.

Requests for transfer shall be submitted to the national administrative authority, which shall take the appropriate action.

### Chapter IX

#### SUPERVISION

#### Article 37

The national administrative authority shall periodically determine whether the undertakings given by the enterprises classified in accordance with this Agreement are being complied with. For this purpose, and in particular as a means of determining whether the exemptions are being properly used, the enterprises shall provide whatever information and data are requested by the national administrative authority and shall permit any inspection that may be necessary.

The information furnished by each enterprise shall be treated by the national administrative authority as confidential.

### Chapter X

#### PENALTIES

#### Article 38

Any improper use of imported articles which have benefited from the customs exemptions provided for in this Agreement shall be sufficient grounds for imposing on the enterprise granted the exemption a fine of three to ten times the total amount of the customs duties and related charges not paid on the said articles and/or for cancelling the classification order or decree, without prejudice to the other legal provisions in force in each country.

Any imported article that has been granted an exemption may be transferred or be used for another purpose, on condition that the exempted duties and charges are paid.

Subject to the authorization of the national administrative authority, the articles aforesaid may be transferred without the need to pay the exempted duties and charges if they are transferred outside Central America or to a consignee who is also entitled to import them with the benefit of a customs exemption.

Machinery or equipment that has been imported with the benefit of an exemption may be transferred or used for another purpose without restriction when more than five years have elapsed since the date of import.

#### *Article 39*

The national administrative authority shall revoke the classification order or decree if the enterprise fails to comply with the obligation to begin production within the period specified in article 34, item (d), and it shall be incumbent on the enterprise to pay the Treasury the amount of any taxes from which it has been exempted.

#### *Article 40*

If the beneficiary fails to comply with any of his other obligations under this Agreement or under the classification order or decree, the national administrative authority may cancel such order or decree.

#### *Article 41*

It shall be considered an unfair trade practice to export from one Central American country to another any product whose cost has been reduced by reason of the improper use of the fiscal benefits that have been granted or by reason of a classification order or decree that is not in accord with the terms of this Agreement. Such practices shall be subject to the procedures and penalties provided for in chapter III of the General Treaty on Central American Economic Integration.

### **Chapter XI**

#### **PREFERENCE FOR CENTRAL AMERICAN PRODUCTS**

#### *Article 42*

The Governments, the independent or decentralized State agencies, the municipalities and all public organs of the Contracting Parties shall give preference, in their purchasing, to products of Central American origin, on condition that these are equal or lower in price and similar in quality by comparison with imported products. For purposes of price comparison, the price components of a non-Central American product shall be deemed to include 50 per cent of the import duties and related charges and of other costs of inward clearance even though the purchasing body has been granted an exemption therefrom.

### **Chapter XII**

#### **FINAL PROVISIONS**

#### *Article 43*

This Agreement shall be submitted for ratification in each Contracting State in conformity with its respective constitutional or legislative procedures and shall enter into force eight days after the date of deposit of the fifth instrument of ratification.

#### *Article 44*

The General Secretariat of the Organization of Central American States shall act as depository of this Agreement and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States and to the Permanent Secretariat of the General Treaty, and shall notify them forthwith of the deposit of each instrument of ratification. Upon the entry into force of the Agreement, it shall also transmit a certified copy thereof to the Secretariat of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

#### *Article 45*

The duration of the present Agreement shall be contingent upon that of the General Treaty on Central American Economic Integration.

#### *Article 46*

This Agreement shall supersede such provisions of general or special legislation as may be in conflict therewith.

#### *Article 47*

The Contracting States shall adopt uniform regulations for the application of this Agreement within a period of not more than thirty days from the date on which the Agreement comes into force. These regulations shall be prepared by the Executive Council.

### **Chapter XIII**

#### **TRANSITIONAL PROVISIONS**

#### *First transitional article*

Enterprises which have been admitted to the benefits of national legislation on industrial development shall continue to be entitled to any fiscal benefits that may have been granted to them by such legislation, except as provided in the following paragraphs of this article. They may, in addition, be granted benefits equal to the maximum benefits extended by the national authorities to other enterprises producing the same articles in some other Central American country, but only for the time that remains before such benefits are due to terminate.

Exemptions which, under national legislation or industrial development, have been granted for the import of building materials shall become null and void thirty days after the entry into force of this Agreement. Exemptions which under national legislation have been granted for the import of machinery and equipment, raw materials, semi-finished goods, containers and fuels shall be subject to the provisions of article IX of the General Treaty on Central American Economic Integration.

Exemptions which, under national legislation of a general or specific character for the development of manufacturing industries, have been granted to an enterprise shall become null and void if, within one year from the date of the classification order or decree, or six months from entry into force of this Agreement, whichever of the two periods is the later, the said enterprise has not made use of any of the benefits extended to it.

#### *Second transitional article*

Any enterprise which, upon the entry into force of this Agreement, has been granted fiscal exemptions under national legislation may, within a period of six months, ask to be reclassified in accordance with the Agreement. If it is reclassified, it shall be granted the corresponding benefits, but the period of these benefits shall be reduced by such portion of the period of benefits under national legislation as has expired.

#### *Third transitional article*

Any enterprise admitted to the benefits of national legislation and classifiable in group C under this Agreement shall, if it is not reclassified in accordance with the preceding article and if it exports its products to any Central American country, be regarded as benefiting from export subsidies. Such exports shall in consequence be subjected to the guarantee procedure and other provisions of article XI of the General Treaty, with the exception of the provisions of the fourth paragraph of that article.

#### *Fourth transitional article*

A Government may grant to any enterprise classifiable in accordance with this Agreement benefits equal to and valid for the same period as the maximum benefits which in their own or another Central American country, have been extended to enterprises producing the same articles by the relevant national authorities. Upon the expiration of the benefits granted by the said national authorities, the enterprise shall receive the benefits provided for in this Agreement during such time as remains before the latter benefits are due to expire.



#### *Fifth transitional article*

For the purpose of applying the principle of balanced economic development as between the Central American countries, the Signatory States agree that the national administrative authority of the Republic of Honduras may grant for two years, and the national administrative authority of the Republic of Nicaragua may grant for one year, to any enterprise which according to this Agreement is classified as a new industry in group A or B, an exemption from the tax on income or profits and from the tax on assets and net worth in addition to the exemptions applicable to such enterprise. These additional benefits shall be granted during the first ten years that this Agreement is in force.

#### *Sixth transitional article*

The Contracting States shall draw up and sign a protocol to this Agreement setting out the régime of fiscal incentives that shall be applicable to enterprises engaged in the manufacture of pharmaceutical and medicinal preparations. Until the said protocol enters into force, such enterprises shall be classified and receive benefits as provided in this Agreement.

#### *Seventh transitional article*

The Contracting States undertake to sign, not later than one year after the entry into force of this Agreement, an additional protocol thereto establishing the régime of fiscal incentives applicable to assembly plants.

The said protocol shall specify, *inter alia*:

(a) The assembly activities which may be admitted to the benefits of the protocol;

(b) The system of fiscal incentives that shall apply to assembly plants, and, in particular, the qualifying and classification criteria, the amount and duration of the fiscal benefits, and the particulars of regional co-ordination;

(c) The requirements and obligations to which assembly plants shall be subject as regards the production or use of components of Central American origin;

(d) The trade régime to which the various assembled articles shall be subject within the Central American Common Market.

Until the said protocol enters into force, the assembly activities to which this article applies shall be entitled only to an exemption of three years on imports of machinery and equipment, and the said activities may be brought within the scope of any or all of the provisions of this Agreement.

#### *Eighth transitional article*

For the purpose of classifying enterprises in group A, item (a), of article 5 of this Agreement, and until the Executive Council of the General Treaty prepares the schedule of capital goods and industrial raw materials referred to in the last paragraph of that article, the Contracting Parties shall be guided solely by the definitions set out in annex 2 to this Agreement.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed the present Agreement in the city of San José, capital of the Republic of Costa Rica, on 31 July 1962.

*For the Government of Guatemala:*

Jorge L. CABALLEROS,  
*Minister for Economic Affairs*

Julio Prado GARCÍA SALAS,  
*Minister for Central American Integration*

*For the Government of El Salvador:*

Salvador JAUREGUI,  
*Minister for Economic Affairs*

*For the Government of Honduras:*

Jorge BUESO ARIAS,  
*Minister for Economic and Financial Affairs*

*For the Government of Nicaragua:*

Juan José LUGO MARENCO,  
*Minister for Economic Affairs*

Gustavo A. GUERRERO,  
*Deputy Minister for Economic Affairs*

*For the Government of Costa Rica:*

Raúl HESS ESTRADA,  
*Minister for Economic and Financial Affairs*

#### *Annex 1*

##### SCHEDULE OF PRODUCTS OF INDUSTRIES CLASSIFIABLE IN GROUP C

For the purposes of the industrial classification referred to in article 5 of this Agreement, qualifying enterprises that are engaged in the manufacture of leather footwear, in the cutting and making up of clothing or in the manufacture of the products listed in this annex shall be classified in group C.

<i>Industry or activity producing:</i>	<i>Uniform tariff classification (NAUCA)</i>
1. <i>Beverages</i>	
Mineral water .....	111-01-01
Water, aerated, flavoured or not .....	111-01-02
Non-alcoholic beverages, n.e.s. ....	111-01-03
Dessert wine .....	112-01-02
Champagne .....	112-01-03
Other sparkling wines, n.e.s. ....	112-01-04
Other wines, including grape must, n.e.s. ....	112-01-05
Beer and other fermented cereal beverages ...	112-03-00
Bitters and similar preparations .....	112-04-01
2. <i>Tobacco manufactures</i>	
Cigars and cheroots, manufactured with tobacco produced outside Central America .....	122-01-00
Cigarettes .....	122-02-00
Tobacco otherwise prepared .....	122-03-00
3. <i>Perfumery, cosmetics and other toilet preparations (except soaps and dentifrices)</i>	
Perfumes .....	552-01-01
Lotions, eau de cologne and toilet water .....	552-01-02
Cosmetics .....	552-01-03
Toilet powder .....	552-01-04
Hair dyes, tonics, pomades, shampoos and other hair preparations .....	552-01-05
All other toilet preparations, n.e.s., including shaving creams, depilatories, etc. ....	552-01-07
Scents, fumigants and other air-perfuming preparations, including room deodorants ...	552-01-08

#### *Annex 2*

For the purposes of article 5 of the Agreement, the term:

"*Industrial raw materials*" means goods which have been produced by the manufacturing industry from raw materials by means of an initial processing that has changed their nature or form and incorporated a high proportion of value added, and which are intended for use in further industrial processes.

For the purposes of classification in groups A and B in so far as the use of raw materials of regional origin is concerned, account shall be taken, in addition to the raw materials appearing in the schedule drawn up by the Executive Council in accordance with the foregoing definition, of the components of the industrial raw materials and of the primary commodities used in the production of such components.

"*Capital goods*" means goods used to process or transform other products, or to provide a service of a productive nature, that are not consumed in a single production cycle.



## **Appendix II**

### **REPORT OF THE FOURTH SPECIAL SESSION OF THE CENTRAL AMERICAN ECONOMIC CO-OPERATION COMMITTEE**

(Tegucigalpa, Honduras, 15 and 16 November 1962)

---

#### **Introduction**

#### **SCOPE OF THE REPORT**

This report (E/CN.12/658) gives an account of the proceedings of the Fourth special session of the Central American Economic Co-operation Committee, held at Tegucigalpa, Honduras, on 15 and 16 November 1962. It was adopted at the closing meeting on 16 November 1962.

#### **Part I**

#### **BACKGROUND**

Since the accession by the Government of Costa Rica to the General Treaty on Central American Economic Integration on 23 July 1962 at the third special session of the Economic Co-operation Committee, the necessary arrangements have gone forward without interruption to give full effect to such accession and to the free-trade régime between Costa Rica and each of the other Central American countries.

By virtue of resolution 109 (CCE) of the Economic Co-operation Committee, bilateral negotiations were initiated between some of the countries during the third special session. Subsequently, the first complete bilateral negotiations between Costa Rica and other member countries were conducted at San José, Costa Rica, from 7 to 24 September. At the end of September further negotiations took place between Costa Rica and Nicaragua. From 8 to 15 October, at the First Meeting of Government Officials, which was held at Mexico City, the final seal was put on the bilateral negotiations, the schedules of goods subject to interim

régimes of exemption were established and agreed upon at the multilateral level, and an initial preliminary draft Protocol was drawn up. At the Second Meeting of Government Officials, which preceded the fourth special session of the Committee, all the aspects and factors relevant to Costa Rica's full accession to the General Treaty on Central American Economic Integration were reviewed. During this period of negotiations, the Governments of the different countries, through their Ministries of Economic Affairs and with the aid of other public and private bodies, completed the necessary technical arrangements. The secretariat of the Committee participated in all these activities and supplied information and background material upon request.

This stage culminated in the formulation of the draft Protocol and of the schedules of goods subject to interim régimes of exemption from free trade, which were submitted to the Committee for its consideration at the fourth special session.

#### **Part II**

#### **FOURTH SPECIAL SESSION OF THE COMMITTEE**

##### **A. MEMBERSHIP, ATTENDANCE AND OPENING MEETING**

The session was attended by delegations from the five Central American countries and by representatives and officials of the Permanent Secretariat of the General Treaty, the Economic Commission for Latin America and the United Nations Technical Assistance Board.

The members of delegations and the other persons attending were as follows:

##### *Guatemala*

*Chairman of the delegation:* Julio Prado García Salas,  
Minister for Central American Integration.

**Members:** Guillermo Noriega Morales; Mario Efraín Hernández; Héctor Ramiro Ruano; Alfredo Herbruger.

#### *El Salvador*

**Chairman of the delegation:** Salvador Jáuregui, Minister for Economic Affairs.

**Members:** Victor Manuel Cuéllar Ortiz; Ricardo Garza Arriaza; Jacobo Gadala María; Ricardo Sagera Jr.

**Observer:** Carlos Rodríguez Cienfuegos.

#### *Honduras*

**Chairman of the delegation:** Jorge Bueso Arias, Minister for Economic and Financial Affairs.

**Members:** Julio C. Garrigó; Roberto Ramírez; Oscar A. Veroy; Mario A. Rendón; Vicente Díaz; Gautama Fonseca; Mauricio Castañeda.

**Advisers:** Ricardo Perdomo; Luis Rodríguez C.; Edgar Velásquez V.; J. Pastor Calderón; Zacarías Bendeck; Juan Angel Moncada.

#### *Nicaragua*

**Chairman of the delegation:** Juan José Lugo Marengo, Minister for Economic Affairs.

**Members:** Jorge Armijo; Gustavo A. Fernández; Alvaro Porta; Carlos Gabuardi.

#### *Costa Rica*

**Chairman of the delegation:** Rodrigo Soley Carrasco, Special Representative of the Ministry of Economic and Financial Affairs.

**Members:** Rodolfo Trejos; José Sancho; Rigoberto Navarro; Paulino Gutiérrez; Rodolfo León; Francisco Terán; Rafael Angel Arguedas.

**Observers:** Marco Tulio Castro; Mario Alberto Echevarría Morales.

**Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA):** Pedro Abelardo Delgado; Abraham Bennaton Ramos.

**Secretariat of the Economic Commission for Latin America:** Cristóbal Lara Beautell; Carlos M. Castillo; Porfirio Morera Batres (BTAO); Alvaro de la Ossa; Enrique Diez-Canedo.

The session was held on 15 November and was opened by Mr. Juan José Lugo Marengo, as Chairman of the Committee.

Mr. Jorge Bueso Arias, Minister for Economic and Financial Affairs of Honduras, and Mr. Salvador Jáuregui, Minister for Economic Affairs of El Salvador, were elected Chairman and Rapporteur of the session, respectively, by acclamation. In taking the Chair, the Minister for Economic and Financial Affairs of Honduras stressed the vital importance of the work to be done and wished the session every success. The Minister for Economic Affairs of Nicaragua, speaking on behalf of the delegations, expressed his gratification that the occasion of the session of the Committee being held at Tegucigalpa was the completion of arrangements for the full incorporation of Costa Rica into the Central American Common Market.

#### B. AGENDA

The Committee decided to remain in permanent session until it had concluded its proceedings. The following provisional agenda, prepared by the ECLA secretariat, was adopted without amendment:

1. Opening of the session.
2. Election of Chairman and Rapporteur.
3. Consideration and adoption of the agenda.
4. Consideration of the draft Protocol to the General Treaty on Central American Economic Integration: Schedules of goods subject to interim régimes of exemption from free trade as between Costa Rica and each of the other States signatories of the General Treaty.

##### *Documents:*

- (a) *Informes de la Primera y Segunda Reunión de Funcionarios Gubernamentales para Perfeccionar la Adhesión de Costa Rica al Tratado General de Integración Económica Centroamericana* (E/CN.12/CCE/SC.1/84/Rev.1 and Annex 2; E/CN.12/CCE/SC.1/87/Rev.1)
- (b) *Nota de la Secretaría: Bases para la aplicación de las preferencias arancelarias negociadas entre Costa Rica y cada uno de los demás estados miembros del Tratado General* (E/CN.12/CCE/SC.1/86)

##### *Reference documents:*

- (a) Report of the third special session of the Central American Economic Co-operation Committee, including the instrument of accession of Costa Rica to the Central American Common Market and the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges (San José) (E/CN.12/657-E/CN.12/CCE/258/Rev.1)
  - (b) General Treaty on Central American Economic Integration and Protocol to the Central American Agreement on the Equalization of Import Duties and Charges (Managua) (E/CN.12/552-E/CN.12/CCE/224)
  - (c) Central American Agreement on the Equalization of Import Duties and Charges (E/CN.12/533-E/CN.12/CCE/184)
  - (d) *Cuadro comparativo de los regímenes transitorios de excepción al libre comercio establecidos en el Tratado General de Integración Económica Centroamericana* (CCE/SC.1/RMTG/I/DT.1)
5. Consideration and adoption of the report of the Rapporteur
  6. Closing of the session

#### C. SUMMARY OF PROCEEDINGS

The incorporation of Costa Rica into the Central American Common Market was completed when, on the occasion of the fourth special session of the Economic Co-operation Committee, the Governments signed the Protocol which, together with the General Treaty, will govern economic relations between Costa Rica and

each of the other Member States. Thus, one of the basic conditions for Central American economic integration has been fulfilled, and one of the essential aims pursued by the Governments has been fully achieved.

Ever since the launching of the Economic Integration Programme in 1952, it was fully apparent that the movement towards multilateral economic co-operation in the Central American region would be incomplete unless it embraced every one of the Central American countries. There are weighty historical as well as economic reasons why this is so, and the purpose of the fourth special session of the Committee was to meet this need.

From December 1960, when the Governments of Guatemala, El Salvador, Honduras and Nicaragua signed the General Treaty, the chief aim of the Integration Programme was to round off the geographical structure of the Central American Common Market through the incorporation of Costa Rica. The General Treaty was therefore left open for accession by any Central State that had not been one of the original signatories. Furthermore, in resolution 105 (CCE) adopted on the same occasion, the Committee expressed the decision of the Governments to leave the Managua Agreements unconditionally open for accession by Costa Rica—which could accede to them simply upon declaring its wish to do so—and it urged the Government of Costa Rica to conclude the studies which it was then carrying out on the country's possible entry into the Common Market and to sign those Agreements as soon as possible.

The wishes of the Governments in this respect were fulfilled in July 1962 when, on the occasion of the third special session of the Committee, the Government of Costa Rica acceded to the General Treaty on Central American Economic Integration, the Agreement establishing the Central American Bank for Economic Integration, and the Managua Protocol on the Equalization of Import Duties and Charges. All that remained for establishing free trade between Costa Rica and the other Member States was to draw up, by pairs of countries, the schedules of goods to be subject to special régimes during the period specified in the General Treaty for bringing the Central American Common Market into full operation.

The fourth special session of the Committee marked the culmination of the activities which the Governments had been pursuing with this end in view since July 1962. After considering the draft Protocol to the General Treaty at this session, the Governments signed it and thereby reached agreement on complete free trade between each one of them and Costa Rica for the majority of products originating in their respective territories, on the conditions that are to govern trade in a limited number of items during the transitional period, and on the time and manner in which unrestricted free trade in these items is to be achieved.

Costa Rica is entering the Common Market at a time when it is already in full operation and the uniform external tariff, which gives the market its strength, has already been drawn up. This circumstance, combined with the type of treatment applied under the

interim régimes to products currently manufactured in the region, will tend to produce competition among many items on the Central American market and thus greatly expand the volume of trade anticipated within the area during the coming years.

The rate at which trade increased among the Central American countries in the last three years outstripped that recorded in any preceding period. It also represented the highest rate of increase for intra-Latin American trade in general. The entry of Costa Rica into the Common Market will inevitably send the rate even higher in the near future, thereby strengthening and completing the adaptation to a completely regional system of what until recently were exclusively national systems of distribution.

With regard to agriculture, the market for Central American agricultural commodities, both raw materials and processed products, has been expanded. The entry of Costa Rica will likewise eventually change the structure of the regional market as new prospects open up for co-ordinating the production of primary commodities and improving the integration and specialization of agriculture, both alone and in conjunction with industrial development.

However, the sector in which the entry of Costa Rica is likely to have the most marked effect is manufacturing. The expansion of the regional market by about 20 per cent and the additional supply capacity that will have to be made available once the Protocol signed at the present session is put into force will enable the areas as a whole to make further progress in import substitution at a time when the balance-of-payments difficulties from which the five countries have been suffering for a number of years make it increasingly imperative to intensify that process.

With respect to the branches of productive activity already established in the various Central American countries, and having in some cases an adequate or even excessive installed capacity in relation to the existing structure of production, the new dimensions of the Common Market will establish different conditions that will be more conducive to increased productivity and specialization which in turn will lead to an expansion of demand in future and make it possible to meet the existing demand under more favourable conditions as regards cost, price and equality.

This increase in the size of the Central American Common Market will also become important for the establishment and operation of those branches of industry which, because of a large investment and special economic characteristics, must have access to large markets. The implications of these new possibilities are readily apparent when it is realized that industries of this kind are becoming an increasingly important factor in the accelerated development that paves the way for effective import substitution. As far as investment requirements are concerned, the entry of Costa Rica into the Common Market should help Central America to promote and carry out increasingly ambitious projects, not only in the manufacturing sector but also in the basic investment sectors on which the area's future growth largely depends.

1. *Protocol completing the accession of Costa Rica to the General Treaty on Central American Economic Integration*

The Committee considered the draft Protocol drawn up at the Second Meeting of Government Officials, which preceded the Committee's fourth special session, and adopted it with some drafting changes.

The requirements for the entry into force of the Protocol were examined at length. Among the proposals discussed was the possibility of requiring only two ratifications, that of Costa Rica and of one other signatory State, instead of the three ratifications, including in any event, that of Costa Rica, provided for in the draft. The Committee decided to maintain the latter condition because of the multilateral nature of the new instrument and also because its articles are based entirely on those of the General Treaty, which lays down the same requirement. A further factor in this decision was the likelihood that the necessary ratifications would be obtained from the signatory States with very little delay.

As to the time when the Common Market should come into full operation, the delegation of Costa Rica stated that the date, viz., 4 June 1961, effective for the other parties to the General Treaty was acceptable, and this arrangement was decided upon.

Through its other provisions, the Protocol expands annex A to the General Treaty by adding to it the schedules for Costa Rica. Upon the entry into force of the Protocol, the special régimes established for certain products and free-trade treatment for the remainder would come into effect forthwith.

It was also decided that the entire Protocol would be applied in conformity with the articles of the General Treaty. The special régimes will be governed by the general note to annex A of the General Treaty and, in the case of particular tariff preference arrangements, by two special notes. It is provided in these notes that when goods are subject to the payment of the "duties and charges in force" or a percentage thereof, the said duties and charges shall be those in force at the time the goods are imported, and that when imports are subject to a preferential tariff that is higher than the national duties and charges in force, the latter shall prevail.

The Committee pointed out that the moment at which importation takes place is defined differently in the customs legislation of the various countries. Hence, in certain circumstances, the same product might have different duties levied on it according to the definition adopted by the importing country. The Committee felt that this was a problem which should be solved without delay through the adoption of uniform Central American customs legislation. It therefore requested the ECLA secretariat to organize a meeting of Central American customs officials for the purpose of considering the draft Customs Code drawn up in 1961 by a group of Central American experts on the basis of the studies and preliminary drafts prepared by the United Nations. It also decided to hold a special session during the first quarter of 1963 in order to examine the revised draft Customs Code and, if appropriate, submit

it to the Governments for signature. It was then agreed that in the absence of any uniform customs legislation, the moment of importation would be determined by each country in accordance with its own laws.

As a result of their consideration by the Committee, the schedules were improved in two important respects. In the first place, some of the forms of treatment previously established were made more inclusive in order to facilitate intra-Central American trade to an even greater extent. Secondly, the preferential tariffs whose application would lead to an increasingly higher total duty each year were modified, and a declining or at least constant rate of duty was established for the whole of the interim period. In addition, basic quotas were fixed for products that did not already have them; preferential margins were extended; and for some products, the period of transition before application of the free-trade régime was shortened. Various items were eliminated from the schedules and thus placed under the free-trade régime.

This last phase of the negotiations was characterized by the fact that the items for which trade has been liberalized are all produced by industries already existing in the area, with the result that trade in them should be substantially increased. This applies to various food-stuffs items and to consumer goods items in general and to some of the capital goods items which can be produced in Central America in sufficient quantities to replace imports from outside the area within a short time.

At the request of the delegation of Costa Rica, it was noted that item 899-02-00—matches—in bulk or packaged is subject to a regulation in that country which specifies the number of matches per box, and that a consumption tax that is applied irrespective of the number. As regards item 112-04—distilled alcoholic beverages—the delegation stated that Costa Rica proposes to adopt the corresponding uniform duties and charges forthwith, instead of by gradual stages as it had originally agreed.

The Committee decided to recommend the Government to sign the Protocol to the General Treaty on the occasion of the fourth special session, and it adopted resolution 117 (CCE) on the incorporation of Costa Rica into the Central American Common Market.

2. *Other matters*

When the Committee concluded its work with respect to the entry of Costa Rica into the Common Market, the Ministers decided to turn their attention to other matters.

The delegation of El Salvador pointed out that the domestic prices for cottonseed varied considerably among the Central American countries. This circumstance affected the production costs of goods manufactured from this raw material and therefore the competitive status of such goods on the Central American market. It also had an adverse effect on export sales. After reviewing the matter, the Committee decided to recommend that cottonseed prices should be equalized as soon as possible. In addition, it requested the Permanent Secretariat of the General

Treaty to carry out the necessary studies to that end and to submit its preliminary findings to the Economic Co-operation Committee at the Committee's eighth regular session. It was also pointed out that for the same purpose of equalizing and stabilizing prices the Ministries of Economic Affairs should exchange information on price and demand conditions in their respective countries.

With regard to tariffs, various delegations stressed the urgency of establishing uniform duties and charges for items that were still awaiting equalization. It was agreed to include this item in the Committee's agenda for the next session so that additional possibilities for tariff equalization might be considered on the basis of the studies already prepared and examined by the Trade Sub-Committee on several occasions. The delegation of Costa Rica announced that it would submit

proposals at that session for revising and amending some of the uniform duties and charges laid down in the Agreement on tariff equalization.

Stress was also laid on the need for pursuing the fiscal studies and measures recommended by the Economic Co-operation Committee on various occasions. It was decided to recommend that the ECLA secretariat should proceed with the work it had already begun in this field in keeping with earlier resolutions of the Committee, and to ask the United Nations to provide technical assistance for carrying out, as one of the projects of the Integration Programme, a systematic study of the fiscal problems that might arise from the accelerated development of Central America, from the full operation of the Common Market and from the eventual creation of a Central American customs union.

### Part III

#### RESOLUTION ADOPTED

##### 117 (CCE) INCORPORATION OF COSTA RICA INTO THE CENTRAL AMERICAN COMMON MARKET

*Resolution adopted on 16 November 1962  
(E/CN.12/CCE/286)*

*The Central American Economic Co-operation Committee,*

##### *Considering*

(a) That the Government of Costa Rica acceded to the General Treaty on Central American Economic Integration on 23 July 1962,

(b) That in conformity with resolution 109 (CCE) of 30 July 1962, the negotiations concerning the schedules of goods which will be subject to interim régimes of exemption from free-trade treatment as between Costa Rica and each of the other member States have been concluded, and the relevant schedules drawn up,

(c) That during this fourth special session of the Committee, the procedures for completing the incorporation of Costa Rica into the Central American Common Market have been considered and agreed upon,

*Decides* to recommend that, on the occasion of this fourth special session of the Central American Economic Co-operation Committee, the representatives of the member States, being vested with the corresponding full powers, should sign in the city of Tegucigalpa, Honduras, the Protocol to the General Treaty on Central American Economic Integration embodying the schedules of goods subject to special interim régimes of exemption from free trade as between Costa Rica and each of the other States signatories to the General Treaty on Central American Economic Integration, in conformity with article IV of the said Treaty.

#### Annex

##### PROTOCOL TO THE GENERAL TREATY ON CENTRAL AMERICAN INTEGRATION: SCHEDULES OF GOODS SUBJECT TO SPECIAL INTERIM REGIMES OF EXEMPTION FROM FREE TRADE AS BETWEEN COSTA RICA AND EACH OF THE OTHER SIGNATORY STATES

*The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,*

*Considering* that the Government of the Republic of Costa Rica acceded to the General Treaty on Central American Economic Integration on 23 July 1962, by signing the relevant instrument,

*Bearing in mind* that in conformity with the provisions of article IV of the General Treaty on Central American Economic Integration and of articles II and III of the instrument whereby Costa Rica acceded to the said General Treaty, they have come to agreement on the schedules of goods to be subject to special interim régimes of exemption from free trade as between Costa Rica and each of the other States signatories to the General Treaty on Central American Economic Integration,

*Being convinced* that the full participation of Costa Rica in the Common Market which they have established is of paramount importance for extending the said Market to the whole Central American area and thus promoting the integration of their economies,

*Have decided* to draw up the present Protocol, and for that purpose have appointed as their respective plenipotentiaries:

His Excellency The President of the Republic of Guatemala:  
Mr. Julio Prado García Salas, Minister for Central American Integration;

His Excellency The President of the Republic of El Salvador:  
Mr. Salvador Jáuregui, Minister for Economic Affairs, and  
Mr. Victor Manuel Cuéllar Ortiz, Representative of El

Salvador on the Executive Council of the General Treaty on Central American Economic Integration;

His Excellency The President of the Republic of Honduras:  
Mr. Jorge Bueso Arias, Minister for Economic and Financial Affairs;

His Excellency The President of the Republic of Nicaragua:  
Mr. Juan José Lugo Marengo, Minister for Economic Affairs;

His Excellency The President of the Republic of Costa Rica:  
Mr. Rodrigo Soley Carrasco, Special Representative of the Ministry of Economic and Financial Affairs,

Who, having exchanged their respective full powers, found in good and due form, have agreed as follows:

#### *Article I*

The signatory States agree to expand annex A to the General Treaty on Central American Economic Integration by adding to it the schedules of goods subject to special interim régimes of exemption from free trade as between Costa Rica and each of the other Contracting Parties.

The schedules of goods referred to in the foregoing paragraph, and the procedures and conditions in conformity with which trade in these goods is to be carried on, are set out in the annex to this Protocol, which forms an integral part of the Protocol and of the General Treaty on Central American Economic Integration.

#### *Article II*

The free-trade régime provided for in the General Treaty on Central American Economic Integration for products, whether natural or manufactured, originating in the Contracting States, and the procedures and conditions for such trade set out in the annex to this Protocol, shall enter into force on the date on which this Protocol takes effect in conformity with the provisions of article V.

#### *Article III*

Notwithstanding the provisions of article II, the period of validity of the special régimes for the products included in the annex to this Protocol shall be reckoned from 4 June 1961, the date on which the General Treaty on Central American Economic Integration entered into force.

#### *Article IV*

This Protocol shall be submitted for ratification in each signatory State in conformity with its respective constitutional or legislative procedures. The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States.

#### *Article V*

This Protocol shall enter into force, in the case of the first three States to ratify it, eight days after the date of deposit of the third instrument of ratification, and, in the case of the States which ratify it subsequently, on the date of deposit of the relevant instrument. In any event, the entry into force of this Protocol shall be conditional upon the deposit of the ratification of Costa Rica.

#### *Article VI*

The application of this Protocol shall be governed in all respects by the provisions of the articles of the General Treaty on Central American Economic Integration.

#### *Article VII*

The General Secretariat of the Organization of Central American States shall act as depository of this Protocol and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States and to the Permanent Secretariat of the General Treaty on Central American

Economic Integration; it shall likewise notify them forthwith of the deposit of each instrument of ratification. Upon the entry into force of the Protocol, it shall also transmit a certified copy thereof to the Secretariat of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed the present Protocol in the city of Tegucigalpa, capital of the Republic of Honduras, on 16 November 1962.

*For the Government of Guatemala:*

Julio PRADO GARCÍA SALAS,  
*Minister for Central American Integration*

*For the Government of El Salvador:*

Salvador JÁUREGUI,  
*Minister for Economic Affairs*  
Víctor Manuel CUÉLLAR ORTIZ,  
*Representative of El Salvador on the Executive Council of the General Treaty on Central American Economic Integration*

*For the Government of Honduras:*

Jorge BUESO ARIAS,  
*Minister for Economic and Financial Affairs*

*For the Government of Nicaragua:*

Juan José LUGO MARENCO,  
*Minister for Economic Affairs*

*For the Government of Costa Rica:*

Rodrigo SOLEY CARRASCO,  
*Special Representative of the Ministry of Economic and Financial Affairs*

NOTE: The schedules of goods which, in accordance with article IV of the General Treaty on Central American Economic Integration, are subject to special interim régimes of exemption from free trade, as between Costa Rica and each of the other States signatories to the said Treaty, are for limited distribution only.

#### ANNEX

SCHEDULES OF GOODS WHICH, IN ACCORDANCE WITH ARTICLE IV OF THE GENERAL TREATY ON CENTRAL AMERICAN ECONOMIC INTEGRATION, ARE SUBJECT TO SPECIAL INTERIM RÉGIMES OF EXEMPTION FROM FREE TRADE AS BETWEEN COSTA RICA AND EACH OF THE OTHER STATES SIGNATORIES TO THE SAID GENERAL TREATY

#### *Notes*

The schedules in this annex shall be applied as indicated in the general note to annex A of the General Treaty on Central American Economic Integration. The following notes shall also apply in the cases specified:

1. When it is expressly stated in the present annex that goods shall be subject to the payment of the "duties and charges in force" or of a specified percentage thereof, the said duties and charges shall be regarded as those in force in the importing country on the date on which the importation is effected.

2. In the case of the goods which in this annex are accorded the benefit of preferential tariffs, expressed in terms of specific or *ad valorem* duties or both, imports of the said goods shall be subject to payment of the preferential tariffs specified in this annex or of the duties and charges in force on the date of importation, whichever is lower.

3. The following schedules, by pairs of countries and numbered from VII to X, shall supplement annex A to the General Treaty on Central American Economic Integration.

- VII. GUATEMALA-COSTA RICA
- VIII. EL SALVADOR-COSTA RICA
- IX. HONDURAS-COSTA RICA
- X. NICARAGUA-COSTA RICA

PRODUCTS SUBJECT TO SPECIAL INTERIM  
REGIMES\*

NAUCA Classification	Description	Treatment accorded

\* The Protocol to the General Treaty, signed by the five Central American Governments on 16 November 1962, contains an annex giving, by pairs of countries, the schedules—numbered from VII to X—of goods which for the time being are subject to special interim régimes of exemption from free trade as between Costa Rica and each of the other signatory States. In addition, the trade treatment to be accorded to each product is specified. Unless otherwise expressly stated in the schedules, the said products shall be accorded free-trade treatment as between the Contracting Parties not later than 3 June 1966, the time limit for bringing the Common Market into full operation.

The products not listed in the schedules shall be accorded free-trade treatment in conformity with article III of the General Treaty on Central American Economic Integration.

The schedules referred to in the first paragraph are not included in the present document, since they are for limited distribution only.









1870

1870

1870

# WHERE TO BUY UNITED NATIONS PUBLICATIONS AND THE PUBLICATIONS OF THE INTERNATIONAL COURT OF JUSTICE

## AFRICA

**CAMEROON:**  
LIBRAIRIE DU PEUPLE AFRICAINE  
La Garante, B. P. 1197, Yaoundé.  
DIFFUSION INTERNATIONALE CAMEROUNAISE  
DU LIVRE ET DE LA PRESSE, Sangmelima.  
**CONGO (Léopoldville):**  
INSTITUT POLITIQUE CONGOLAIS  
B. P. 2307, Léopoldville.  
**ETHIOPIA:** INTERNATIONAL PRESS AGENCY  
P. O. Box 120, Addis Ababa.  
**GHANA:** UNIVERSITY BOOKSHOP  
University College of Ghana, Legon, Accra.  
**KENYA:** THE E.S.A. BOOKSHOP, Box 30167, Nairobi.  
**MOROCCO:** CENTRE DE DIFFUSION DOCUMENTAIRE DU B.E.P.I. 8, rue Michaux-Bellaire, Rabat.  
**SOUTH AFRICA:** VAN SCHAIK'S BOOKSTORE (PTY) LTD.  
Church Street, Box 724, Pretoria.  
**SOUTHERN RHODESIA:**  
THE BOOK CENTRE, First Street, Salisbury.  
**UNITED ARAB REPUBLIC:** LIBRAIRIE "LA RENAISSANCE D'ÉGYPTÉ"  
9 Sh. Adly Pasha, Cairo.

## ASIA

**BURMA:** CURATOR, GOVT. BOOK DEPOT, Rangoon.  
**CAMBODIA:** ENTREPRISE KHMÈRE DE LIBRAIRIE  
Imprimerie & Papeterie Sarl, Phnom-Penh.  
**CEYLON:** LAKE HOUSE BOOKSHOP  
Assoc. Newspapers of Ceylon, P. O. Box 244, Colombo.  
**CHINA:**  
THE WORLD BOOK COMPANY, LTD.  
99 Chung King Road, 1st Section, Taipeh, Taiwan.  
THE COMMERCIAL PRESS, LTD.  
211 Nanon Road, Shanghai.  
**HONG KONG:** THE SWINDON BOOK COMPANY  
25 Nathan Road, Kowloon.  
**INDIA:**  
ORIENT LONGMANS  
Calcutta, Bombay, Madras, New Delhi  
and Hyderabad.  
OXFORD BOOK & STATIONERY COMPANY  
New Delhi and Calcutta.  
P. VARADACHARY & COMPANY, Madras.  
**INDONESIA:**  
PEMBANGUNAN, LTD., Gunung Sahari 84, Djakarta.  
**JAPAN:** MARUZEN COMPANY, LTD.  
6 Tori-Nichome, Nihonbashi, Tokyo.  
**KOREA, REPUBLIC OF:**  
EUL-YOO PUBLISHING CO., LTD.  
5, 2-KA, Chongno, Seoul.  
**PAKISTAN:**  
THE PAKISTAN CO-OPERATIVE BOOK SOCIETY  
Dacca, East Pakistan.  
PUBLISHERS UNITED, LTD., Lahore.  
THOMAS & THOMAS, Karachi.  
**PHILIPPINES:**  
ALEMAR'S BOOK STORE, 769 Rizal Avenue, Manila.  
POPULAR BOOKSTORE, 1573 Dorotea Jose, Manila.  
**SINGAPORE:**  
THE CITY BOOK STORE, LTD., Collyer Quay.  
**THAILAND:**  
PRAMUAN MIT, LTD.  
55 Chakrawat Road, Wat Tuk, Bangkok.  
NIBONDH & CO., LTD.  
New Road, Sikak Phya Sri, Bangkok.  
SUKSAPAN PANIT  
Mansion 9, Rajadamnern Avenue, Bangkok.  
**VIET-NAM, REPUBLIC OF:**  
LIBRAIRIE-PAPETERIE XUAN THU  
185, rue Tu-do, B. P. 283, Saigon.

## EUROPE

**AUSTRIA:**  
GEROLD & COMPANY, Greben 31, Wien, I.  
B. WÜLLERSTORFF  
Markus Sittikusstrasse 10, Salzburg  
GEORG FROMME & CO., Spengergasse 39, Wien, V.

**BELGIUM:** AGENCE ET MESSAGERIES  
DE LA PRESSE, S. A.  
14-22, rue du Persil, Bruxelles.  
**BULGARIA:**  
RAZNOŌZNOS, I, Tzar Assen, Sofia.  
**CYPRUS:** PAN PUBLISHING HOUSE  
10 Alexander the Great Street, Stravolos.  
**CZECHOSLOVAKIA:**  
ARTIA LTD., 30 ve Smečkách, Praha, 2.  
ČESKOSLOVENSKÝ SPISOVATEL  
Národní Třída 9, Praha, 1.  
**DENMARK:** EJNAR MUNKSGAARD, LTD.  
Nørregade 6, København, K.  
**FINLAND:** AKATEEMINEN KIRJAKAUPPA  
2 Keskuskatu, Helsinki.  
**FRANCE:** EDITIONS A. PEDONE  
13, rue Soufflot, Paris (V\*).  
**GERMANY, FEDERAL REPUBLIC OF:**  
R. EISENSCHMIDT  
Schwanthaler Str. 59, Frankfurt/Main.  
ELWERT UND MEURER  
Hauptstrasse 101, Berlin-Schöneberg.  
ALEXANDER HORN  
Spiegelgasse 9, Wiesbaden.  
W. E. SAARBACH  
Gertrudenstrasse 30, Köln (I).  
**GREECE:** KAUFFMANN BOOKSHOP  
28 Stadion Street, Athens.  
**HUNGARY:** KULTURA, P. O. Box 149, Budapest 62.  
**ICELAND:** BÓKAVERZLUN SIGFÚSAR  
EYMUNDSSONAR H. F.  
Austurstræti 18, Reykjavik.  
**IRELAND:** STATIONERY OFFICE, Dublin.  
**ITALY:** LIBRERIA COMMISSIONARIA SANSONI  
Via Gino Capponi 26, Firenze,  
and Via Paolo Mercuri 19/B, Roma.  
**LUXEMBOURG:**  
LIBRAIRIE J. TRAUSSCHSCHUMMER  
Place du Théâtre, Luxembourg.  
**NETHERLANDS:** N.V. MARTINUS NIJHOFF  
Lange Voorhout 9, 's-Gravenhage.  
**NORWAY:** JOHAN GRUNDT TANUM  
Karl Johansgate, 41, Oslo.  
**POLAND:** PAN, Pałac Kultury i Nauki, Warszawa.  
**PORTUGAL:** LIVRARIA RODRIGUES Y CIA.  
186 Rua Aurea, Lisboa.  
**ROMANIA:** CARTIMEX, Str. Aristide Briand 14-18,  
P. O. Box 134-135, Bucureşti.  
**SPAIN:** LIBRERIA BOSCH  
11 Ronda Universidad, Barcelona.  
LIBRERIA MUNDI-PRENSA  
Castello 37, Madrid.  
**SWEDEN:**  
C. E. FRITZE'S KUNGL. HOVBOKHANDEL A-B  
Fredsgatan 2, Stockholm.  
**SWITZERLAND:**  
LIBRAIRIE PAYOT, S. A., Lausanne, Genève.  
HANS RAUNHARDT, Kirchgasse 17, Zürich 1.  
**TURKEY:** LIBRAIRIE HACHETTE  
469 Istiklal Caddesi, Beyoğlu, Istanbul.  
**UNION OF SOVIET SOCIALIST REPUBLICS:**  
MEZHDUNARODNAYA KNIIGA  
Smolenskaya Ploshchad, Moskva.  
**UNITED KINGDOM:**  
H. M. STATIONERY OFFICE  
P. O. Box 569, London, S.E.1  
(and HMSO branches in Belfast, Birmingham,  
Bristol, Cardiff, Edinburgh, Manchester).  
**YUGOSLAVIA:**  
ČANKARJEVA ZALOŽBA, Ljubljana, Slovenia.  
DRŽAVNO PREDUZEĆE  
Jugoslovenska Knjiga, Terazije 27/11,  
Beograd.  
PROSVJETA  
5, Trg Bratstva i Jedinstva, Zagreb.  
PROSVETA PUBLISHING HOUSE  
Import-Export Division, P. O. Box 559,  
Terazije 16/1, Beograd

## LATIN AMERICA

**ARGENTINA:** EDITORIAL SUDAMERICANA, S. A.  
Alina 500, Buenos Aires.  
**BOLIVIA:** LIBRERIA SELECCIONES, Casilla 972, La Paz.

**BRAZIL:** LIVRARIA AGIR  
Rua Mexico 98-B, Caixa Postal 3291,  
Rio de Janeiro.  
**CHILE:**  
EDITORIAL DEL PACIFICO, Ahumada 57, Santiago.  
LIBRERIA IVENS, Casilla 205, Santiago.  
**COLOMBIA:** LIBRERIA BUCHHOLZ  
Av. Jiménez de Quesada 8-40, Bogotá.  
**COSTA RICA:** IMPRENTA Y LIBRERIA TREJOS  
Apartado 1313, San José.  
**CUBA:** LA CASA BELGA, O'Reilly 455, La Habana.  
**DOMINICAN REPUBLIC:** LIBRERIA DOMINICANA  
Mercedes 49, Santo Domingo.  
**ECUADOR:**  
LIBRERIA CIENTIFICA, Casilla 362, Guayaquil.  
**EL SALVADOR:** MANUEL NAVAS Y CIA.  
1a. Avenida sur 37, San Salvador.  
**GUATEMALA:**  
SOCIEDAD ECONOMICA-FINANCIERA  
da. Av. 14-33, Guatemala City.  
**HAITI:** LIBRAIRIE "À LA CARAVELLE"  
Port-au-Prince.  
**HONDURAS:**  
LIBRERIA PANAMERICANA, Tegucigalpa.  
**MEXICO:** EDITORIAL HERMES, S. A.  
Ignacio Mariscal 41, México, D. F.  
**PANAMA:** JOSE MENENDEZ  
Agencia Internacional de Publicaciones,  
Apartado 2052, Av. 8A, sur 21-58, Panamá.  
**PARAGUAY:**  
AGENCIA DE LIBRERIAS DE SALVADOR NIZZA  
Calle Pie. Franco No. 39-43, Asunción.  
**PERU:** LIBRERIA INTERNACIONAL  
DEL PERU, S. A., Casilla 1417, Lima.  
**URUGUAY:** REPRESENTACION DE EDITORIALES,  
PROF. H. D'ELIA  
Plaza Cagancha 1342, 1º piso, Montevideo.  
**VENEZUELA:** LIBRERIA DEL ESTE  
Av. Miranda, No. 52, Edif. Galipán, Caracas.

## MIDDLE EAST

**IRAQ:** MACKENZIE'S BOOKSHOP, Baghdad.  
**ISRAEL:** BIUMSTEIN'S BOOKSTORES  
35 Allenby Rd. and 48 Nachlat Benjamin St.,  
Tel Aviv.  
**JORDAN:** JOSEPH I. BAHOUS & CO.  
Dar-ul-Kutub, Box 66, Amman.  
**LEBANON:**  
KHAYAT'S COLLEGE BOOK COOPERATIVE  
92-94, rue Bliss, Beirut.

## NORTH AMERICA

**CANADA:** THE QUEEN'S PRINTER  
Ottawa, Ontario.  
**UNITED STATES OF AMERICA:** SALES SECTION,  
UNITED NATIONS, New York.

## OCEANIA

**AUSTRALIA:**  
WEA BOOKROOM, University, Adelaide, S.A.  
UNIVERSITY BOOKSHOP, St. Lucia, Brisbane, Qld.  
THE EDUCATIONAL AND TECHNICAL BOOK AGENCY  
Parap Shopping Centre, Darwin, N.T.  
COLLINS BOOK DEPOT PTY. LTD.  
Manash University, Wellington Road, Clayton, Vic.  
MELBOURNE CO-OPERATIVE BOOKSHOP LIMITED  
10 Bowen Street, Melbourne C.I, Vic.  
COLLINS BOOK DEPOT PTY. LTD.  
363 Swanston Street, Melbourne, Vic.  
THE UNIVERSITY BOOKSHOP, Nedlands, W.A.  
UNIVERSITY BOOKROOM  
University of Melbourne, Parkville N.2, Vic.  
UNIVERSITY CO-OPERATIVE BOOKSHOP LIMITED  
Manning Road, University of Sydney, N.S.W.  
**NEW ZEALAND:**  
GOVERNMENT PRINTING OFFICE  
Private Bag, Wellington  
(and Government Bookshops in Auckland,  
Christchurch and Dunedin)

Orders and inquiries from countries where sales agencies have not yet been established may be sent to: Sales Section, United Nations, New York, U.S.A., or to Sales Section, United Nations, Palais des Nations, Geneva, Switzerland.

Printed in U.S.A.  
23980—November 1963—3,550

Price: \$U.S. 0.75  
(or equivalent in other countries)

United Nations publication  
Sales No.: 63.II.G.12  
E/CN.12/672  
E/CN.12/CCE/303/Rev.1